THE BRITISH ECONOMY 1945–1950

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PREFACE

Most of the chapters in this book are studies of economic development and policies in various fields in the years 1945–50. The chapters which now constitute Part II were, however, designed as a background, describing the structure and principal characteristics of the British economy. There were obvious disadvantages in splitting up the national income chapter into two parts, one pre-1945 and the other post-1945, so that a single chapter on national income, together with the introduction, comes at the beginning of the book.

The treatment of the various topics was left largely to the individual authors, but they were asked to pay particular attention to advice about further reading. The fruits of this will be found in the bibliographical notes at the end of the book. Following the example of the *Survey of Contemporary Economics* we appointed 'readers' for each chapter, for the most part from among our own numbers. In this way we endeavoured both to avoid too much duplication and to ensure that we did not leave out too many important matters. As a result many of the first, and second, drafts were substantially rewritten, but the last word has always been left with the author, who alone takes responsibility for his contribution.

The contributors represent no particular doctrine, nor do they share a common political outlook, nor have the Editors attempted to reconcile doctrinal or political differences among them.

The debts of authors to readers largely cancel out and need not be enumerated. We should like to thank Mr. F. A. Burchardt and Mr. G. D. A. MacDougall for valuable advice in planning the book, and Mr. F. W. Glaves-Smith, Mr. R. L. Hall, Mr. K. E. Robinson, and Dr. C. S. Orwin for comments on particular chapters. We have been much helped by a number of economists and others who have given us permission to quote their statistical tables. Finally we should like to express, on behalf of contributors and ourselves, our gratitude to Miss B. M. Gisborne, who gave invaluable help in preparing the Index, and typed many chapters, and to Miss V. E. Titcomb and other members of the staff of the Institute of Statistics for assistance in the typing of successive chapters.

D. W.

P. A.

NOTE

The chapters in this book were completed at various dates in 1951 and early 1952. Contributors were asked to take December 1950 as the end of the period to be covered, but were given discretion in choosing a later date of ending, if that gave a more rounded picture of their particular field. No attempt has been made at the various proof stages to bring any chapter up to date. Where the present tense is used, it should be taken as referring to the period under review.

ERRATA

p. 17, *l.* 5 *and p.* 372 *n. for* Laver *read* Lavers

p. 237 *last line for* 1950 *read* 1940

p. 340, *l.* 23 *and p.* 343, *l.* 5 *for* Lyttleton *read* Lyttelton

p. 524, *l.* 2 *from bottom for* European Co-operation Administration (E.C.A.) *read* Economic Co-operation Administration (E.C.A.)

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INTRODUCTION

INTRODUCTION

CHAPTER I

THE BRITISH ECONOMY, 1945–50

By G. D. N. WORSWICK

THE studies in this book are mainly devoted to different aspects of the British economy in the six years following the end of the war. In two respects, at least, these six years constitute a distinct 'period' in our modern economic history. Firstly in 1949, and throughout 1950, the balance of payments on current account showed an overall surplus. Marshall Aid to Britain came to an end in December 1950. Since then a new crisis in our balance of payments has come upon us and the terms of trade have worsened sharply. The causes of this crisis are complex. It was only in 1951 that Germany and Japan returned to the world economy as exporters on their pre-war scale. The effects of this return on British exports are obviously long-lasting. The Korean War caused excessive stockpiling in the U.S.A. and this was followed by rearmament throughout the Western world, both developments unfavourable to Britain's external position. In retrospect, therefore, one sees the achievement of an overall surplus in 1949 and 1950 as, to some extent, fortuitous. But it is not too much to say that it showed that, so far as the overall payments position was concerned, the problem was soluble, if not solved. There were fewer grounds for optimism about the dollar shortage. True, the Sterling Area dollar deficit was also wiped out in 1950: but equally the relatively small recession in the U.S.A. in 1948 and 1949 had been sufficient to throw us right back on the painful climb to dollar balance. Altogether we may say that, by 1950, that part of the 'international problem' which could be attacked by direct action of Britain itself was on the way to solution.

Secondly, the Labour Government of 1945 had introduced and largely completed a very heavy programme of legislation in the field of social services, in the nationalization of industries, and in a number of other directions. The second post-war Labour Government brought in very little legislation of major economic importance—apart from the nationalization of the iron and steel industry.

The immediate explanation lay, of course, in the tiny majority it enjoyed in the House of Commons after February 1950. But even if that majority had been larger, the Labour Party's election programme and the statements of Labour leaders had made it clear that there was to be a period of stocktaking and digestion of measures already brought in. It could be, and was, argued that the framework of the welfare state had been constructed and that what was now needed was a time for adjustment and detailed improvement, rather than further radical change.

It might be said that to treat the years 1945–50 as a whole is misleading: that there were in fact shorter periods, separated by crises, in which the direction and character of economic policy was radically different from earlier periods. But, writing at the end of 1951, one is more inclined to see the various 'balance of payments' crises as specific eruptions, in different forms, of a basic disequilibrium in the world economy. Equally, one sees the persistent 'fuel crisis' to some extent as a reflection of these external crises. If there had not been such need to export, more capital might have been installed at home in coal-mining, electricity generation, and so on. To the extent that purely domestic factors were involved in the shortages of manpower in particular industries, the very high level of employment sustained throughout 1946 to 1950 had something to do with nearly all the particular crises.

I. *Britain's economic recovery, 1946–50*

The main indexes of change

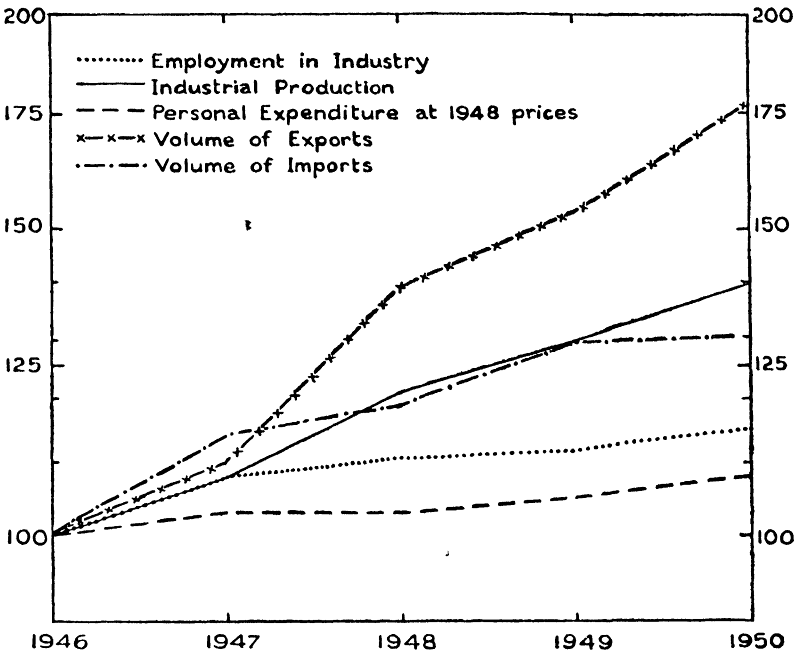
Table 1 and the accompanying chart summarize the principal economic developments from 1946 to 1950. All the items represented are 'index numbers' and a preliminary word about them is necessary. The index of industrial production in 1950 was 40 per cent. greater than in 1946. This does not mean that production in each separate industry increased by that amount. The 40 per cent. figure is an *average* of a large number of different percentage changes for each industry. This average is not the simple arithmetic mean of the separate percentage changes, for industries are not all of the same size. The percentage changes in output of the various industries must clearly be 'weighted' in some way in order to take into account the varying sizes of the different industries. There is

TABLE I

Major Economic Changes, 1946–50

	1946	1947	1948	1949	1950
Employment in industry . .	100	108	111	112	115
Industrial production . . .	100	108	121	129	140
Personal expenditure at 1948 prices	100	103	103	105	108
Volume of exports . . .	100	110	139	153	177
Volume of imports . . .	100	114	119	129	130

Sources: *Monthly Digest of Statistics*: Cmd. 8203; Rostas, *Economic Journal*, Mar. 1952, p. 17.



ECONOMIC CHANGES IN BRITAIN, 1946–50
(logarithmic scale)

more than one way of measuring the 'size' of an industry. One could use, for example, the relative money values of output of the industries in the particular year, or the relative amounts of employment they give, or the amounts of raw materials they use, and so on. Once it is decided which measure of size to use, a second decision must be taken about which year to choose for calculating the

weights. The proportions of total money value of output, or total employment, contributed by different industries may themselves change from one year to the next. This is of special significance in times when the pattern of production is changing quickly—which has been the case since the 1930's. At the height of the war more than half of the working population were doing jobs and producing goods different from those of peace; since the war the economy has not sprung back to its pre-war shape. The outputs of agricultural and engineering products, to take only two examples, have increased considerably, while the outputs of the coal and building industries are still lower than before the war. So long as we are interested only in changes from year to year the ambiguities inherent in the choice of a particular index number can be kept within bounds by reweighting the index number from time to time to bring it up to date. But if we try to make comparisons, showing annual movements over a large number of years, the differences between index numbers, weighted in different ways, may increase to such an extent that the impression given by one such index is substantially different from that given by another, even though each index is compounded of the same individual series. The same is true of exports and imports or of any of the other items listed in Table 1.

Variations in the quality of products must also be taken into account when making comparisons between different dates. If the components of the index of production are tonnages, or numbers of units, e.g. motor-cars, the index may conceal a change in quality. The consensus of opinion is that in a wide range of goods, especially for the home market, the quality of a typical unit was below pre-war. Attempts are in fact made in the construction of quantity, and price indexes to allow for this: but they may be inadequate. Consequently index numbers with a pre-war base may somewhat exaggerate the improvement since before the war. On the other hand, there is less reason to believe that quality declined *during* the period 1946 to 1950. If anything, it was the other way round; the increasing variety of raw materials and components has permitted manufacturers to produce articles more suitable for their intended use.

A different kind of uncertainty is involved in the representation of any given series, whether for a single product, or in the form of an index number. In the first place, the same facts *look* different

according to the angle of observation. If we choose as base year one in which, for some special reason, production was abnormally low, then a chart will show the subsequent changes in a more favourable light than if we had chosen as base year one in which production was unusually high. In many countries production in 1938 was as much as 10 per cent. less than in 1937. Accordingly comparisons with 'pre-war' can be manipulated by choosing one or other year to represent 'pre-war'. For these reasons we have chosen a post-war base year for Table 1, and give rough comparisons with pre-war years in the text.

Finally, the apparent rise or fall of any index number can be exaggerated or minimized by the choice of scale in a representative chart or diagram: the most familiar example is the cost-of-living chart which acquired such notoriety in the 1951 General Election. There is no ideal, or true, scale for the visual representation of time series. There are only conventions, some of which are associated with the fact that in most books the page is longer than it is wide.

There is no escape from these difficulties: no statistician or economist can free himself completely from the charge of bias, any more than the most cautious trustee can free himself from the charge of speculation. Without theory 'facts by themselves are silent.'[1]

One fact does emerge from the chart, and would be apparent however the chart was drawn, and that is that no two post-war years are alike. Some have suggested 1948 as the most suitable base year for post-war statistics. Among the reasons offered are that there was no major fuel crisis or foreign exchange crisis in that year. But one might equally well argue that the absence of overt crises makes 1948 a most untypical post-war year. There are obvious objections to 1946, that demobilization was incomplete, for example, but since there were so many changes in the subsequent years the choice of 1946 as a base is little more arbitrary than any other, and it has the advantage of being the first year of the period under review. Moreover, by drawing the chart on a logarithmic scale we can go some way to reduce the apparent exaggeration of subsequent increases in production, exports, and so on. If the *slope* of any curve on such a scale is constant it means that the percentage change *from year to year* is the same.

[1] Marshall, in his inaugural lecture, 1885. Cf. *Memorials of Alfred Marshall*, 1925, p. 166.

Industrial production

Accustomed as we have become since the war to tales of economic crisis, the chart may come as a shock. Above all, industrial production was rising with extraordinary steadiness at a rate of about 8 per cent. per annum throughout the period. Of course, by plotting annual averages, the impression of steadiness is heightened. But if monthly figures were to be used and a correction made for seasonal fluctuations, the curve would still be nearly straight over the whole of its length. Industrial production, as Mr. Seers points out in a later chapter, accounted for a good deal less than a half of our economic activity, even in 1950. But the other sectors of the economy, agriculture, transport, distribution, and 'government', all showed annual increases throughout the period, though at smaller rates.

In each of the last three years the actual performance of industrial production exceeded the official expectations at the beginning of each year, as announced in the annual *Economic Surveys*. Still more widely did the performance diverge from the prognostications of some economists who deplored the extension into peace-time of the apparatus of government economic control which had been created during the war. The fuel crisis of 1947 stimulated the following comment:

> The vicious circle was complete. Inflation unattended to; controls over the distribution of resources to prevent price rises; maldistribution of resources because of inherent clumsiness of controls; dwindling production intensifying inflation; more controls and so on, endlessly. Finally, in July 1947, the Government, having learnt and forgotten nothing, announced that the economic crisis called for direction of labour, tighter distribution of raw materials to cut out unessential work, and more elaborate discrimination over capital expansion. In short more of the old poison to cure the disease.[1]

If the coal distribution breakdown in early 1947 did have any great effect, it can only have been to reduce somewhat the production in 1947, with a consequent exaggeration of the rise in 1948. But that is a very different thing from the picture of an economy shackled by controls and slowly grinding to a stop. It was indeed in mid-1947 that the great post-war upsurge of production really began to acquire momentum.

The rise in industrial production in the earlier part of the period

[1] J. Jewkes, *Ordeal by Planning*, p. 77.

is not hard to account for. Employment was rising rapidly as men and women left the Armed Forces and as civilian production was allowed to expand once more. To begin with production was held up, sometimes here, sometimes there, because of acute shortages of particular materials or components. As the supplies of these scarce items expanded the flow of production was increased and output rose. Secondly, in the early years some production was absorbed in building up working capital—filling up the pipe-lines —which was not fully accounted for in the index number of production. The continuance of the trend of production in 1948, 1949, and 1950 does, however, call for comment. There are good reasons for believing that the annual rise, not merely in total production but more significantly (since 1947) in production per man-year, was substantially greater than in the inter-war years. The explanation is more likely to be found in a variety of directions than in any one single factor. The pattern of output has changed: this was of course most marked during the war when the share of engineering, itself a high productivity industry, rose sharply.[1] Productivity increases in engineering itself have probably not contributed much since the war to higher general productivity: but the permanently higher output of machinery probably has contributed a good deal to the increase in output of the industries installing the machines. It seems that *net* investment in machinery and plant of the kind which has a direct effect on output (as distinct from better buildings, say, whose productivity effects are less direct) has been higher since the war than it was before.

There seems little doubt also that the quality of management in industry has been improving in the last decade. The war, with its acute shortage of labour, was a powerful stimulus to developments in 'personnel management'. No doubt some of these developments were cranky or mere window-dressing, but there is much evidence of sound thinking on matters of industrial morale. There have been few periods in our modern history of such continued industrial peace. This last is to the credit of both management and trade

[1] When the stock of capital equipment is constant, the average productivity in industry rises only if the *marginal* productivity of workers transferred into engineering is greater than their *marginal* productivity in the industry they leave. But both during and since the war movements of workers have been accompanied by capital investment in the receiving industries. Consequently we avoid using the term *marginal* productivity which might be misleading in this context.

unions. Past experience might have led us to expect an intensification of strikes with the very high employment which was sustained in the years after the war. Trade unions, however, showed great restraint in the use of their power, which was certainly greater than it had ever been. Full employment itself has become so charged with political and social emotion that a sober assessment of its influence on productivity seems well-nigh impossible. Throughout 1945 to 1950 the number of unfilled vacancies notified to employment exchanges exceeded by far the number of persons unemployed. If someone did not like his present job and wanted to leave it, there was every likelihood that he would find another as quickly as he wanted. Equally, employers were reluctant to dismiss workers for fear they would get no others. From this point of view the atmosphere was far more favourable to indiscipline, irresponsibility, and absenteeism than before the war. On the other hand, good managements were well aware of the new problems which would arise once the threat of the sack had lost its sting, and were developing methods of consultation which would provide new and positive incentives to replace fear as the basis of industrial discipline. How far these opposing factors balanced one another is difficult to say. Figures have been published from time to time which show a very high turnover of labour in particular places, but it would not be safe to generalize from them for the whole country.

Paradoxically, it was frequently argued that full employment *discouraged* mobility. Certainly the existence of an excess demand for labour in nearly all occupations meant that an individual might stay in some job of an obviously unessential kind when there was an acute shortage of workers in essential industries, notably coal-mining, textiles, and agriculture. There is evidence that *geographical* mobility was low while mobility between *occupations* was high after the war.[1] But there were other factors which have to be taken into account, such as the persistent shortage of housing, and the fact that the 'undermanned' industries might still have low wages, or have had a bad past history of industrial relations, e.g. coal.

In two other respects full employment seems to have been favourable to productivity. New and labour-saving machinery had obvious attractions to management, and was received with much

[1] Cf. Leser, 'Variations in Unemployment Rates', *Bulletin of the Institute of Statistics*, Jan. 1951.

more favour by trade unions than in the past. The often quoted case of dock unloading machinery is a spectacular exception to the rule. Secondly, trade unions have been prepared to discuss and to adopt, however gradually, new methods of working—redeployment schemes—which would certainly have been resisted in the 1930's.

Quite a number of theories about the *optimum* level of employment appeared in the years 1946 to 1950, which purported to demonstrate that productivity (and even, in some theories, total production) would rise if the level of employment was less full than was in fact the case. There is far too little evidence about the many conflicting influences mentioned above to put any such theory to a satisfactory test. Certainly a study of the variations in production and employment in those countries, e.g. U.S.A., where there have been lapses from full employment since the war does not yield any indication that such theories are correct. In fact, the view that the very high level of employment, which reigned after the war, contributed to the rapid increase in industrial productivity has more to be said for it than the opposite.

The performance of the British economy after 1945, which is illustrated in the chart, contrasts sharply with the experience after 1918, when there was a short-lived boom in employment and production followed by a severe slump. Production levels of 1913 were not reached again until the mid-twenties. The recovery after 1945 was not an exclusively British achievement. In Europe and in the United States the post-1945 recovery was much faster than after 1918, and in nearly all cases the disastrous sequence of inflationary boom, followed by deep slump, was averted or held in check.[1] The rates of recovery in production differed very widely, and in some cases industrial production remained at well below its pre-war level until 1948. But by 1950, all countries in Europe (except Germany) had surpassed the pre-war levels.

In the U.S.A. industrial production, even as early as 1947, was more than twice that of 1938, whereas by 1950 the increase over the 1938 level in Europe was only one-quarter. But, while Europe's production climbed steadily from very low 1946 levels, the post-war *trend* in the U.S.A. was slowly upward, and was interrupted in 1948–9 by an actual fall.

[1] For a detailed comparison of recoveries in Europe after 1918 and 1945 see *A Survey of the Economic Situation and Prospects of Europe*, E.C.E. (Geneva), 1948.

In 1951 there were signs in Britain that the strong upward movement of production was tailing off, and a similar worsening was appearing in other European countries. Whether this was the result of rearmament, or denoted something more fundamental, it is too early to say, nor is this the place to speculate about future developments. We note simply that, throughout the period with which this book deals, industrial production was expanding with remarkable steadiness at about 8 per cent. per annum: a performance which compares favourably with the post-1918 recovery, and indeed with any period of five years in the inter-war period: as a

TABLE 2

Industrial Production (1938 = 100)

	1947	*1948*	*1949*	*1950*
U.S.A.	210	216	198	225
Europe*	82	96	109	124
U.K.	115	128	137	150

Source: *E.C.E. Economic Survey of Europe in 1950*, p. 30.
* All countries in Europe, including U.K. and 'iron curtain' countries, but excluding U.S.S.R.

ratio of pre-war production it was also higher in Britain throughout the period than the average for Europe.

Exports and imports

During the war, once Lend-Lease and Mutual Aid had been introduced, British exports were restricted to the essential needs of other belligerents and to those goods which had to be sold to neutrals to purchase essential imports. In the latter part of the war the volume of exports fell very low, to about one-third of the pre-war level. It was known that a very considerable expansion of exports beyond pre-war levels would be needed once hostilities (and Mutual Aid) ceased. The figure of 75 per cent. above pre-war was fairly generally accepted as the order of magnitude of the desirable post-war volume of exports. This, it was calculated, would be sufficient (i) to replace the gap created by income lost through the sale of overseas investments, (ii) to pay for the interest on debts of various kinds incurred during the war (largely the accumulated sterling balances) or likely to be contracted afterwards, and (iii) to allow a somewhat larger volume of imports, to be expected if

employment and real income were sustained at higher levels than before the war.

There is no continuous index of the volume of exports covering the period 1938–50. By one index number the volume of exports in 1946 was a trifle below the 1938 level. The figures in Table 1 were obtained by joining the old index (for 1946–7) to a new (re-weighted) index from 1947 onwards. This procedure gives a volume of exports in 1950 75 per cent. greater than in 1938! We need not attach any importance to the exactness of the agreement. It will be sufficient to say that by 1950 exports had reached the sort of level which had been predicted at the end of the war as necessary and which, at that time, many people thought to be impossibly high. The path upwards, however, was not quite as steady as the chart makes it look. At the end of 1948 and in the first half of 1949 the volume of exports was flattening out ominously, a flattening which is disguised by using annual averages. In September 1949 the pound was devalued by 30 per cent. All the Sterling Area countries, except Pakistan, and most western European countries devalued simultaneously to the same extent, but not the U.S.A. In certain other cases also only a smaller devaluation occurred. How far the devaluation itself can be said to have caused the volume of exports to resume its upward path, or how far other factors, notably the recovery of U.S. national income after the recession of 1948–9 and then the events following the outbreak of war in Korea, were responsible, is a subject in itself. What is important here is that the devaluation caused a further deterioration of the terms of trade, although this had already become apparent before 1949.

The worsening of the terms of trade had not been sufficiently anticipated in the calculations made at the end of the war. The expansion of exports may have gone according to plan, but not so the other elements involved. The volume of imports was indeed rising slowly throughout the years 1946–50; but even in 1950 it was still below the pre-war level (a rough estimate would be 10 per cent. below that of 1938), despite the fact that employment and industrial output were substantially larger than ever before. During and since the war policy has been directed towards import substitution, notably in agriculture, but in industrial fields also. Much progress was made in this respect. Nevertheless, the favourable balance on current account in 1949–50 was possible only

because the monetary demand for imports was still substantially curtailed by quantitative import restrictions. It was known in 1950, when the European Payments Union was introduced, that the accompanying 'liberalization' of trade between O.E.E.C. countries (i.e. successive increases in the proportion of uncontrolled imports from other O.E.E.C. members), involved a considerable risk for Britain. In the event, in 1951 U.K. imports from this area rose very sharply and, in November 1951, many of the restrictions were put back. Restrictions on dollar imports had remained throughout. Far from permitting larger imports, therefore, much of the expansion of exports has been absorbed in making good the worsened terms of trade. As Mr. Henderson points out,[1] a further deterioration may take place in the future. Consequently, if ever Britain wishes to be able to pay for substantially larger imports, the volume of exports must reach double the pre-war level or even more. Regarded simply as a question of production, this does not appear an impossible task. After all, if exports reached a figure of 75 per cent. above the pre-war level in a period of five years in which other drains on our resources were especially heavy, a further increase in exports of, say, one-quarter looks reasonable. But can Britain hope, not merely to sell in one good year, but to go on selling exports on this scale? Either her share of world exports must increase substantially, or else the total volume of world trade must expand greatly. In the twentieth century, world trade has not expanded with anything like the rapidity of world production. And it is likely that this difference of trend will continue in the future.[2] Intensive industrialization of backward countries will undoubtedly stimulate trade, especially in engineering products, but also in consumer goods, so long as the accumulation of real capital is going on. As the new capital comes into production, however, an opposite tendency for trade to fall may set in, caused by a diminution of comparative cost differences brought about by the very industrialization itself. No one can predict with any assurance how soon, and to what extent, the opposing tendency will counter the expansion of trade stimulated by investment in backward countries.

The point may be put differently. The rate of expansion of industrial production in the world will be limited by two factors.

[1] Cf. Chapter III.

[2] Cf. D. H. Robertson, 'The Future of International Trade', *Economic Journal*, Mar. 1938.

The first is the rate of saving. Within the major industrial countries saving was *not* a limiting factor prior to the Second World War: on the contrary, the burden of the Keynesian argument is that the rate of saving was too high, and this fact was overtly expressed in the form of persistent involuntary unemployment. The flow of private foreign investment, which might have alleviated the unemployment in the industrial countries, dried up, and no substitute for it developed. With the discovery of full-employment techniques there is less likelihood that excessive saving will be an embarrassment. In the British case, certainly, because of the redistribution of incomes which has occurred since before the war, the rate of saving is likely to limit the possible rate of investment for a long time to come. It is not so easy to be sure about the United States. If it had not been for Marshall Aid, and then rearmament, would not the U.S. economy have begun to show, by now, the symptoms of persistent demand deficiency? There is certainly sufficient evidence to support a plausible argument along these lines.

In the backward countries the rate of saving will be far too low to permit a reasonable rate of progress: indeed most will need outside finance if they are to develop quickly enough merely to absorb their growing populations without suffering further declines in the standard of living. Whether or not they will get it will depend on the lending capacity of the advanced countries and on the kind of international arrangements made for foreign investment: private investment will, in the uncertain political conditions of today, be quite inadequate for the task.[1] The biggest single item is plainly the amount of overseas lending (or giving) which the United States is prepared to do. If international, and especially U.S., lending is on a generous scale, the other sort of limiting factor will be encountered, namely, the capacity of the developing countries to absorb new capital. They are short of skills of all kinds: industrial skills, managerial skills, and the administrative personnel to organize the efficient and coherent expansion of industry on a broad front.

If we assume, for the sake of argument, that all goes well on both sides, i.e. that there is a generous flow of capital and technical assistance from the mature countries and that the receiving countries make every possible effort to absorb the new capital in sound

[1] Cf. *Measures for the Economic Development of Under-developed Countries*, U.N. Expert's Report, May 1951.

development projects, this would undoubtedly be a great step forward for the world at large. But it does not necessarily follow that the consequent expansion of world trade would be sufficient to enable Britain to achieve her required volume of exports, without increasing her share of that trade, which means that someone else's would have to be reduced. Nor, as has already been hinted, would the going be easy thereafter: the pattern of British exports would need continually to be adjusted to the changing composition of world production.

If the expansion of world production does not take place, however, Britain's position would not be made easier, but worse. The severity of competition with other exporting countries would be intensified. Moreover, there are grounds for believing that a persistent deflationary tendency in the United States is almost certain to spread beyond her shores, so that world trade will be limited by purely financial stringencies.[1] Throughout the period of the great expansion of British exports, in 1946–50, depicted in the chart, two major competitors of the past—Germany and Japan—were virtually non-existent as exporting economies. Both countries, however, began to revive rapidly from their post-war stagnation in 1950 and more especially in 1951. Already the impact of German chemical and vehicle exports in European markets on British exports has been severe and similar difficulties will arise from the return of Japan to the textile markets.

The fact that an overall surplus on current account was reached in both 1949 and 1950 should not be taken as meaning that the British balance of payments problem had been solved. Imports were still severely restricted, while certain unfavourable influences which were bound to exert themselves sooner or later had been postponed. The re-emergence of Germany and Japan was one: the failure to reduce the volume of outstanding sterling balances was another. It was the fact that the effects of the Korean crisis and rearmament were superimposed on a situation already worsening which produced such a dramatic crisis in the British and Sterling Area payments situation in the second half of 1951.[2]

[1] Cf. Chapter XXII.

[2] It is perhaps worth mentioning here that the crisis of 1951, and indeed the earlier crises of 1947 and 1949, were caused to a greater or less extent by changes in the outside world. This is not to absolve the British Government from any responsibility for the crises. But there have been many who have argued that the payments difficulties were caused *solely* by internal factors: more

The ideal condition for the further expansion of British exports is one in which world production is expanded as fast as the limitations of savings, skill, and international co-operation allow. Even if this ideal eventuates, Britain's problems will not necessarily be easy. If it does not, Britain will have to continue the policy of cheeseparing and import substitution pursued, with occasional relaxations, from 1945 until 1950. In any case it is difficult to see how Britain can dispense with quantitative import restrictions for a very considerable time to come.

Consumption

The great export expansion took a considerable part of the increase of industrial output in the post-war years. Capital investment was also, especially in industry, running at levels higher than before the war—the major exception being housing where pre-war rates of construction were not nearly reached. Consequently the volume, and incidentally the quality, of goods available for the home market was restricted. Annual estimates are provided of 'personal expenditure on consumer's goods and services' at 1948 prices. There was a slight increase in aggregate consumption from 1946 to 1950: the increase per head was even smaller, about 1 per cent. per annum over the five years. The range and variety of goods available in 1950 was, however, a good deal wider than in 1946: moreover the restrictions on choice imposed by rationing were far less extensive: only the principal food items were still rationed in 1950. Consequently an annual increase of 1 per cent. probably understates the improvement which occurred over the period. The scale and pattern of expenditure per head in 1950 were, *on the average*, very similar to those before the war. As Mr. Seers points out in a later chapter, the *average* conceals a substantial increase for the poorer and decrease for the richer consumers. Certain things, e.g. doctors' and dentists' services, medicines, and so on, are now almost universally provided through the Health Service, which before the war figured, in part, as 'personal expenditure'. But allowance for this would not alter the picture substantially and the three charts of 'Exports', 'Industrial Production', and 'Personal Expenditure at 1948 prices' taken together

specifically that they would have disappeared if a policy of 'disinflation' had been pursued with greater vigour.

are as expressive as figures ever can be by themselves of the determined effort made by Britain to get on her feet again.

Employment and unemployment

The chart of 'industrial employment' shows the increase in employment in the group of industries covered by the index of industrial production. This industrial employment rose slightly more than the average: total civil employment in all industries, trades, transport, and administration, rose over the whole period by 12 per cent. compared with the 15 per cent. for 'industry'. The rise between 1946 and 1947 in both cases was quite sharp, as there was still substantial demobilization to be completed. Thereafter the rise in total employment has been very gentle, at a rate of about 1 per cent. per annum. This is largely accounted for by the annual increase in the working population. The proportion of women in employment was, of course, very much raised during the war: and it has settled down at a level somewhat higher than before the war.

The figures for aggregate employment do not bring out the most remarkable feature of the British economic landscape since the war—the virtual abolition of unemployment. With the exception of the fuel crisis of early 1947, when for a few weeks about 2 million workers were without employment and many more attended their places of work without being able to do much, the numbers unemployed on any particular day have never risen beyond 400,000 and frequently have been much less than this.[1] In the latter part of the period this was achieved without the use of any labour controls.

This is well below the figure which the most optimistic of authorities were prepared to accept before or during the war as a practicable target in peace-time. No figure was given in the main text of the famous *Employment Policy* White Paper of 1944: but the exercise, published in an Appendix, to demonstrate the working of the proposed scheme for a varying insurance contribution was based on an assumed average unemployment of about $1\frac{1}{2}$ million. Beveridge suggested 550,000 as a practicable minimum in peace-time.

[1] i.e. less than 2 per cent. of the working population. Since the scope of unemployment insurance has changed on several occasions since before the war, most extensively with the introduction of universal national insurance in 1946, we avoid making comparisons in terms of percentage unemployment.

Whether or not the extraordinarily high level of employment had favourable effects on production can be disputed. About its social consequences there is not a shadow of doubt. In their remarkable study *Poverty and the Welfare State*, Rowntree and Laver analysed the causes of poverty in York in 1936 and 1950. In 1936 31 per cent. of the working-class population in York were 'in poverty' as defined by Rowntree's standard. In 1950 this proportion had fallen to less than 3 per cent. Of the families in poverty in 1936 the chief cause in nearly one-third of the cases was unemployment of the chief wage-earner. In 1950 not a single family was in poverty due to the unemployment of an able-bodied wage-earner.

Even more important, perhaps, although they cannot be measured in the same way, were the psychological gains to the individual given by the certainty of getting a job. Commenting on the fact that before the war some men got more when unemployed than when at work (because unemployment benefit carried allowances for wife and children not payable to a wage-earner), Professor A. L. Bowley remarked: 'Actually reluctance to undertake work has been due to the difficulty or expense of moving to new employment rather than to a preference for idleness.'[1] The loss of social status and self respect caused by unemployment is something that no social security scheme, however generous, can fully outweigh.[2] During the war there were many workers who did not think that industrial conscription was an unpleasant, if inevitable, infringement of their liberty: they welcomed it as the provider of employment. In fact, as we have seen, very high levels of employment were maintained after the war without labour controls. This experience, so sharply contrasted with that of the inter-war years, has taken a strong hold of popular imagination and will exercise a dominant influence on all future economic policies in this country.

Britain's recovery: success or failure?

This has been only the sketchiest outline of the economic position of Britain after the war and the main developments which occurred between 1946 and 1950. Throughout this period a Labour Government was in office—the first Labour Government in our

[1] A. L. Bowley, 'Social Security', *Journal of the Institute of Bankers*, Apr. 1943.

[2] Cf. *Men Without Work*, a Report made to the Pilgrim Trust. C.U.P., 1938.

history to carry with it both the largest number of votes for any party[1] and an overall majority in the House of Commons. Can the economists and statisticians give an authoritative judgement of the success, or failure, of the Labour administration? Can they not produce some index of economic progress which would sum things up? The idea is an attractive one. But it must be apparent from what has already been said that there are many snags. What should *in principle* go into the index? Obviously we want to know about aggregate real output, and the changes in real output per head. Some people would not be satisfied with this: they would attach importance to the level of employment as such. They might take the view that an economy which keeps everyone in a job is better than one in which there is a higher rate of increase in output but with some unemployment all the time. Since the different indicators could not, by their very nature, be reduced to any meaningful common unit, we should have to be content with a small number of indicators: each person, according to his outlook, would attach greater importance to some rather than others. In fact some of the principal indicators have already been described. The one which has not been described, and which is one which, in principle at least, many economists would consider most significant, is the index of real output per head for the whole economy. For two reasons no attempt is made to produce such an index in this book. Since the war there has been an abundance of data collected and published in all the major fields of economic activity: there is nothing like as much information available for the pre-war years. The composition of output has changed very greatly: How should the index number be weighted to give a 'true' or 'fair' comparison? Even if the data allowed the construction of all possible types of index number for both the pre-war and post-war periods (which in fact they do not), it would still remain true that one was comparing the rate of increase in one kind of output with that of another. This is not to say that such a comparison would be useless. All that is claimed is that it would not be exact or free from ambiguity.

In the case of productivity in *industry* we can, however, assert with some confidence that the rate of increase in 1946–50 was greater than before the war. Mr. Leyland estimates the increases

[1] The number of Labour votes cast in the 1951 election remained larger than that for any other party.

between 1946 and 1950 as 21 per cent.—an annual increase of nearly 4 per cent. which compares with an annual increase of 2·4 per cent. between 1924 and 1937.[1] This fact alone does not prove that post-war economic progress was faster than before. But, if we take into account the indicators already mentioned in Table 1, we can go some way to make a judgement of the post-war economy.

In the first place the broad pattern of development was obviously right. Industrial production rose steadily: no one can say that it could not have risen even faster, but it did rise at a fast rate. Relatively little of this increase went into personal consumption. Exports rose, about as much as had been predicted at the end of the war as needed to recover a sound balance of payments position, but, in the event, this proved insufficient. Enough was achieved to suggest that the problem was soluble: no one would claim that it was solved. The greater part of the rest of the increase in production was absorbed in capital investment. There is no doubt that the high investment of the earlier post-war years was already yielding dividends ir higher productivity within the period under review. Again, although the direction of industrial investment may be criticized, few would argue that it would have been wise to have had much less. Nor would any substantial body of opinion be found to support the view that social capital formation, e.g. housing, should have been smaller. Judged by increased industrial output, agricultural output, and the export drive, Britain's post-war recovery will bear comparison with the recovery of any other country which was in any way directly damaged by the war. How far government policy was responsible is a different question about which we have said little so far and to which we must now turn.

II. *Economic Policy, 1945–50*

Any post-war government would have needed to formulate a policy of economic recovery from the damage suffered during the war. The human losses of killed and wounded were the sharpest, They can be enumerated but not valued. Consequently we shall exclude them from our consideration of war damage.

This damage was of two kinds. In the first place, there had been substantial destruction of physical assets, of houses, factories, and other installations, ships, port facilities, and so on. Other assets owned abroad had not been physically destroyed, but had been

[1] Cf. Leyland, Chapter XVII.

sold, and the proceeds used (before Lend-Lease) to buy materials and weapons of war. These assets no longer yielded income and so, from our point of view, the subsequent effects were much the same as if they had been physically destroyed. We might also include in this item the accumulation of debt. To an accountant the sale of an asset and the incurring of a debt may appear to be the same. There is, however, always the possibility of reducing the burden of debt, by agreement or by default, and it might be better to include overseas debts in the second category of damage. The first class includes all those items which can be listed and counted with reasonable accuracy, and to which a sensible money value can be attached for the purpose of addition. The second type of damage is not so easy to measure and in some cases cannot be measured at all. Nevertheless it is important. If there had been no war there would have been more houses built in 1939 to 1945: industrial capital would not have been allowed to deteriorate in a wide range of industries not directly useful to war production: repairs would have been undertaken which were postponed. In the same way, instead of exports being cut down to the bare needs of allies and neutrals, export markets would have been retained. We could, of course, invent a hypothetical peace-time 1939-45 and calculate the losses in relation to this model. But it would be an arbitrary procedure: What levels of production and employment should one assume, and so on? Moreover against these hypothetical material losses we should have to offset certain immaterial gains. During the war there was a gentleman's agreement between political parties and between the major industrial groups, employers' and workers' organizations, not to introduce 'controversial' changes. In fact, under the pressure of war, a great many things were quietly done which would have caused a storm of controversy at any other time. Meanwhile, to fill the physical gap left by dwindling capital and lower consumption, there accumulated a moral pressure of ideas and plans. At the end of the war the country was in the mood for change and innovation and many things were done in a year or two which might otherwise have taken decades. In no field did the exigencies of war and the post-war mood combine more dramatically than in the social services, especially the health services.[1]

The list of direct losses was formidable enough. Eighteen million

[1] Cf. Titmuss, *Problems of Social Policy*, H.M.S.O., 1951.

deadweight tons of shipping were actually lost. There had been, of course, substantial new construction during the war: despite this the total U.K. and Colonies[1] merchant shipping at the end of the the war was 15·9 million deadweight tons compared with 22·1 million at the beginning. 210,000 houses were destroyed: another 250,000 rendered uninhabitable. Altogether 4 million houses (perhaps one-third of the total) were destroyed or damaged by enemy action. Over £1,000 million of external capital assets were sold; apart from this, external liabilities increased by nearly £3,000 million, and the gold and dollar reserves were smaller at the end of the war.

These are but a few of the losses suffered by the economy.[2] At the height of the war personal consumption had been reduced by between one-fifth and one-quarter: there was a little easing up towards the end of the war, but consumption levels were still considerably below pre-war in 1945. If, therefore, the aim of policy was:

1. to put the balance of payments on current account right;
2. to make good the actual destruction and losses and to make a start at reducing the 'notional' losses at home, e.g. after repairing or replacing destroyed houses to begin on the backlog of houses which would have been built, and abroad, e.g. to begin to repay some of the debts accumulated;
3. to raise living standards to something like pre-war levels;

it could be seen that there was enough to keep the economy fully occupied for a long time to come. To list needs in this way did not, however, mean that they would be met. After all, the same might have been said in 1918—indeed it was, with the slogan 'Homes for Heroes'—but within two years production was sinking and unemployment rife. The bitter experience of 1919–21 was still fresh enough to create a strong mood of 'not again': equally important, Keynes had meanwhile supplied the key to the problem of preventing such a recurrence.

Keynes had argued that the fundamental cause of unemployment in the inter-war years was the deficiency of effective demand. From his analysis it was equally clear that at the end of the war the

[1] The tonnage of ships on Colonial Registers was 0·5 million tons in 1939 and 0·2 million in June 1945.

[2] Cf. *Statistical Material Presented during the Washington Negotiations*. Cmd. 6707, 1945.

immediate problem would be an excess of demand. If nothing was done, or rather, if all controls were removed, this excess demand was bound to waste itself in a violent inflation with an inevitable slump to follow. If, however, the pressure of demand could be prevented from breaking out into open inflation, this very control was likely to ensure full employment for a considerable time to come. The principal source of this excess demand was the accumulation of 'abnormal' savings of persons and businesses during the war. Taxation had indeed been raised to very high levels during the war, but the principal instruments for reducing consumption and 'inessential' investment were direct controls of the supplies of materials, &c., and rationing of foodstuffs, clothing, and many other things. Thus, at the height of the war, private persons were saving something like 25 per cent. of their disposable incomes (after payment of direct taxes) compared with a normal rate of saving before the war of less than 5 per cent. In the same way firms, unable, owing to the control of materials, machine tools, and building, to replace plant and machinery as it wore out, accumulated the funds which would otherwise have been spent currently for this purpose. In addition, Excess Profits Tax, though nominally at a rate of 100 per cent. of profits above the pre-war standard, could be reclaimed after the war in a fairly wide number of instances for replacement of capital.

Whereas, in normal times, there is no reason to expect savings made in one year to be spent in the near future, there was every reason to expect a substantial part of these war-time savings to be spent so soon as the goods became available when the war was at an end. Thus, after the war, individuals and firms had as a source of current expenditure both their current incomes and also the excess of the war-time savings over and above what they considered to be a desirable reserve of capital in the longer run. Further, if prices were kept under control after the war, these abnormal savings would retain their value and thus act as a supplement for a longer period to the aggregate demand arising out of current income. Official circles at the end of the war seemed to be thinking in terms of a 'transition' period of two, or perhaps three years; one private calculation, based on quite plausible assumptions about post-war levels of prices, taxation, &c., yielded an estimate of six years.[1] This accumulation of war-time savings must be borne in

[1] M. Kalecki, *Bulletin of the Institute of Statistics*, Dec. 1944.

mind in assessing the policies pursued by the Government after 1945. Lord Keynes in his study of war finance, *How to Pay for the War*, published early in 1940, anticipating this problem, had envisaged a capital levy as soon as the war was over. Other countries in Europe, Belgium for example, confronted with a similar problem, introduced currency reforms which included the partial confiscation of war-time savings. Although from time to time a capital levy was advocated in this country after the war, the only measure in this direction was the small 'Special Contribution' in Sir Stafford Cripps's Budget of April 1948.

The actual course followed between 1945 and 1950 was a gradual dismantling of war-time physical controls. The process was not uniform: attempts were made from time to time, e.g. after the convertibility crisis of 1947, to tighten up or to reimpose particular controls. But, by 1950, final consumers were rationed only in respect of the principal items of food, and, in an informal way, of coal. Rationing had been removed from clothing and furniture and other items such as soap and petrol. Raw material allocations to industry, including steel, had been entirely removed by 1950, but early in 1951 world shortages of raw materials, and rearmament, led to a restoration of certain controls. The control of labour had gone: the extensive price control of non-food goods of the war years had been largely removed, or had become so vague as to be ineffective. Building licensing, however, still remained and was almost as 'restrictive' in its impact on individuals and firms in 1950 as at any time during the post-war period.

As the physical controls were removed so the burden of 'regulating' the economy fell increasingly upon fiscal policy. In some cases the removal of a control was replaced by a gentleman's agreement between an industry and the Government to go on devoting a given proportion of its output to the export trade. In other cases the removal of a control meant restoring a completely free market.

The respective roles and merits of direct controls, fiscal policy, and monetary policy were a subject of continuous controversy throughout the post-war years. Much of this controversy is referred to in later chapters of this book, and we must restrict ourselves here to one or two very general observations.

The first is the question of whether all the 'regulators' at the disposal of the Government—direct controls, budgetary policy,

and monetary policy—should have been operated *in the same direction*. In certain cases they obviously were not. Just how much additional pressure of demand was generated by Mr. Dalton's cheaper money policy is debatable. No one can argue that it was deflationary, or to use the fashionable term, disinflationary. In the same way it can be argued that the reduction of the standard rate of income tax in April 1946 from 10*s*. to 9*s*., with corresponding increases in various allowances, was premature. But was the speediest possible removal of any excess monetary demand from the economy the best criterion of policy? If that had been the policy clearly the first thing to do was to 'work off' the accumulated savings of persons and firms. This would have meant first building houses for those who had the money to pay cash down, before building houses financed by loans, or building local authority houses to be let to people whether they had savings or not. In industry it would have meant giving priority in time to firms with large liquid reserves above those with little. Finally, it would have meant satisfying those home demands for manufactured goods, e.g. motor-cars, which individuals were in a position to pay for, before embarking on an export drive.

Put in this way, it is doubtful whether anyone would have advocated this policy: but it is what is logically entailed in using all the regulators in the same direction with the object of removing excess demand. It is equally clear that there are dangers in operating the different regulators very strongly counter to one another. For instance, to subsidize goods, which are already scarce and rationed will intensify the risk of a black market growing up. Nevertheless there remained a fairly wide range of alternative policies whose choice was largely a matter of political and administrative judgement. In the years immediately after the war it is certain that fiscal and monetary policy alone, without support from physical controls, could not have prevented inflation. If taxes on current income and expenditure had been raised, the deflationary gap so created would have been automatically filled by drafts on war-time savings.

The last paragraph contains a concealed political premise. It is conceivable that if interest rates had been raised to 20 per cent. and income tax to 15*s*. in the pound, an immediate deflation might have been caused. But such measures were politically impossible at the time. Just at what point an economic policy goes beyond the bounds of practical politics can never be precisely agreed. Conse-

quently, the views expressed here must contain a considerable element of personal judgement about what alternative economic policies are worth discussing at all.

Just when the accumulated demand can be said to have been worked off is hard to say. Contrary to popular belief the errors in calculations of this sort are very large. One may hazard the guess that from the end of 1948 onwards there was a real choice between the fiscal regulator and direct controls.

The contrast of fiscal (and monetary) regulators, on the one hand, and direct controls, on the other, may be made in two ways. One line of argument, strongly supported by many economists,[1] was that the Government should restrict itself to ensuring the correct level of *aggregate demand* by means of the appropriate balance of government expenditure and revenue, leaving the allocation of resources between different sectors of the economy to the working of a free pricing system. Others took the view that fiscal policy alone could not achieve a very high level of employment. In the first place the policy presupposes an exactitude in economic prediction which is far from being realized at present, if ever it can be in the future. Secondly, it postulates a flexibility of prices and a mobility of factors which is also unrealistic. Quite apart from government controls, there are many rigidities in the economic system. An excess demand in one commodity or factor market might persist for a very long time side by side with an excess of supply and unemployment of factors in another. The level of *aggregate* demand which would just balance the market for the scarcest commodity or factor might mean substantial excess supply in some other markets, with a rather high *average* unemployment.

The second point at issue was this. Among those who agreed that the Government should take action to speed up expansion in one sector and contraction in another, some argued that specific subsidies and taxes should be used rather than direct administrative measures. This issue is discussed more fully in a later chapter.

If the choice is made, as it was until 1950, to keep aggregate demand at a high level and to maintain physical controls over the markets where excess demand is greatest, e.g. building, some increase in prices is almost inevitable. This was not the only source of price rises in the years 1945–50. A 'cost-induced' inflation would

[1] Cf., among others, Jewkes, *Ordeal by Planning*; Meade, *Planning and the Price Mechanism.*

almost certainly have occurred even if aggregate demand had been maintained throughout at lower levels. Import prices would have risen in most cases just as much, even if British demand had been a bit lower, while there is no reason to believe that wage demands would have been much more restrained if there had been, say, an average unemployment of 5 per cent. What we know of the pricing policy of businesses suggests that rises in costs are passed on fairly quickly in higher prices. The various attempts to restrain price increases, whether they originated from excess demand or from the side of costs, are described later on. Whether more rigorous steps should have been taken is not easy to decide. The rise in prices in Britain was very similar to the rise in prices over the same period in the United States. Just as there is a danger to the balance of payments if British export prices are too high, there is an equal danger of loss of earnings if they are too low. Here the fact that businesses do not as a rule discriminate in their export and home price quotations means that, if the exchange rate is fixed, the internal cost and price structure has to follow the dominant trend in the world at large if these dangers are to be avoided.

This raises the question of the relative merits of fixed and flexible exchange rates, on the one hand, and, if a decision is taken for the former, the means of regulating the level of wages and other costs, on the other.

Raising productivity

Given full employment of labour throughout the period, economic recovery and the standard of living clearly depended on raising output per head in all directions. The greatest attention was concentrated on industrial productivity. As Mrs. Hall points out, very little was done—at any rate the Government had little to say—about raising productivity in the distributive trades. Towards the end of the period, following the Report of a committee on Resale Price Maintenance and the earlier Reports of the Monopolies Commission, the Labour Government in 1951 announced its intention of bringing in legislation to abolish the practice of resale price maintenance of any kind. It was hoped that, by so doing, competition in retailing would be driven more towards lowering costs (and probably at the same time raising output per worker). Apart from this most of the schemes for economies enforced in the war (e.g. zoning of distribution) had been dropped, largely in the name of

consumers' choice and freedom of competition between businesses. Nearly all writers on distribution mention that costs could be lowered, but in the post-war years little was forthcoming in the way of new ideas for doing it.

As Mr. Clegg shows, the reasons for nationalization of industry were many: but the argument was frequently made that such measures were essential in the interests of efficiency. Judgement in such cases is necessarily uncertain. How can one compare the actual performance of one organization with what would have happened if the organization had been different? In coal, progress has been made in closing the smallest and least efficient pits: but the acute shortage of coal throughout the period slowed down the process. Progress in closing uneconomic railway lines and re-arranging the flow of freight traffic on road and rail to reduce the aggregate cost of carrying the country's freight was slower still. Some progress was made. Whether more would have been made otherwise is hard to say: there is certainly a case that more could have been made within the framework of nationalization.

It is right to insist that nationalized industries should be efficient: but in judging performance in the earlier years it is as well to remember that in some cases, coal being the outstanding example, other issues were involved, notably the need to restore the confidence of the miners. One of the disappointments, certainly, is that some nationalized industries showed no more enlightenment in arranging and standardizing their purchases of equipment than had their private predecessors.

In private industry the Labour Government's attempts to raise productivity were largely indirect. The war-time concentration schemes were wound up—as it had been promised in 1941 that they would be—and the controls over 'utility' production gradually relaxed as a wider and wider variety of goods flowed onto the market. The Working Parties set up in late 1945 and 1946 duly made recommendations, and legislation followed to set up statutory Development Councils, a few of which were in fact started. An Anglo-American Productivity Council was established, which has organized many visits of delegations of employers, technicians, and workpeople to the United States to study American methods. How far all this, essentially persuasive and voluntary, activity has contributed to raising productivity is hard to say. But it appears that in the welter of reports of committees and delegations there is

much reference to simple economic truths of the advantages of specialization and standardization, but not much practical result. With one or two minor exceptions (e.g. the subsidy to investment in the cotton industry) the Government refrained from using or delegating compulsory powers to enforce industrial 'rationalization'. Similarly, the hopes of some that monopolistic practices might be reduced, thereby stimulating efficiency via competition, have not been realized. The Monopolies Commission was, it is true, set up, but it works slowly and piecemeal. As with the distributive trades it is an open question how great will be the results following from a purely negative policy of forbidding certain practices.

As one surveys the variety and extent of measures in different industries one is impressed by their volume and by their meritorious intentions. But one cannot avoid the conclusion that we have not yet found a satisfactory industrial organization which will encourage the most rapid rise in efficiency. Lying at the root of the problem is the question of the proper relation between Government and industry. Few would argue (there are still a few) that it is either possible or desirable for the Government to retreat altogether from the industrial field. Some degree of intervention is accepted by most people as necessary. But the extent and form of that intervention and the spirit in which it is made are all-important. During the war it was possible for the Civil Service to discriminate between industries and firms in its treatment of them. A statutory authority like the Cotton Control was able to nominate which mills should go on spinning cotton and which be shut down. Since the war the principle of non-discrimination has been fully restored. Thus policies are scrutinized closely in order to eradicate any trace of favouritism—even in cases where, from the point of view of production, it is known that firms A, B, and C are far more efficient, better employers and so on, than firms X, Y, and Z. It is not, as some would have us believe, that civil servants are incompetent to judge these things at all. On the contrary, they may sometimes know them only too well: but as things are they are driven to use their considerable intelligence to devise controls which no one can justifiably complain about on the grounds of equity. In so doing they often sacrifice efficiency.[1]

This is not to say that the policy has been wrong. But it should be realized that a price has to be paid for ensuring the particular

[1] For a fuller discussion of this point cf. Chapter XIII.

type of equality of opportunity between manufacturers and traders which has been upheld so far. In the light of the overwhelming need for yet higher productivity we may have to reconsider whether the price is not too high.

International policy

During and since the war the policy of the British Government in international economics had a number of objectives:

(i) The balance of payments of Britain itself had to be brought back into a sound position.
(ii) Full employment in Britain was to be maintained throughout.
(iii) The long-standing ties with other Sterling Area countries were to be maintained.
(iv) After 1947 co-operation with other Marshall Aid countries was to be developed under the aegis of the Organization for European Economic Co-operation (O.E.E.C.).
(v) Britain was to play a leading part in the formation and functioning of United Nations economic institutions such as the International Monetary Fund and the International Bank. She also wished to help formulate a set of rules governing international monetary and commercial behaviour and to abide by the rules when agreed.

Stated thus, these principles seem admirable. What was abundantly demonstrated in the years from 1946 to 1950 was that they were not compatible. Or, to put it differently, at no time in those years was it possible for Britain to adhere fully to the rules of the international bodies set up without immediate threat to her own balance of payments and, indirectly, to full employment. The story is a complicated one and is dealt with more fully in the last part of this book. Here there is room only for a few considerations which should be borne in mind when following the course of events during those years.

As early as 1941, in the Atlantic Charter, references were made to economic war aims. The signatories of the Atlantic Charter announced their intention to 'endeavour, with due respect for existing obligations, to further enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world'. When, later, plans were

settled for the International Monetary Fund in the Bretton Woods Agreement of 1944, and for an International Trade Organization, promulgated in December 1945, these very general principles became more concrete. They were to mean the removal of all kinds of 'discrimination', the reduction of tariffs, and the establishment of free convertibility of currencies. Very broadly, the post-war institutions conform to the classical economists' ideal of a free trade world. The idea that free trade is in the interests of all countries was born and bred in Britain: it reached maturity at the end of the nineteenth century. It was never accepted everywhere, least of all perhaps in Germany and the United States. There had always been a body of doctrine—by no means as disreputable as free trade theorists have suggested—that protection might well be the right policy, at least for a country wishing to develop. Concessions to this view were in fact made in the articles of the I.M.F. and the I.T.O. Charter. Meanwhile, following into the field of international economics the 'effective demand' theory of Keynes, economists were arguing that free trade and convertibility were most potent means of spreading to all countries the swings of boom and slump originating in the dominant country, which means nowadays primarily the United States. Free trade was all very well, they said, if there was continued full employment in the major industrial countries. But if those countries were liable to periodic slumps, smaller countries might gain more by ensuring stability through protective devices than they lost from sacrificing some of the advantages of international specialization. What, after all, were the gains from free trade, if the monetary mechanism ensured that the volume of world trade was very low? Concessions were in fact also made to this view in the post-war institutions. Or rather the principle that all countries should maintain full employment was accepted. But when it came to details, a very great deal was worked out in the field of freeing trade, while little or nothing was said about how countries were to ensure full employment and what sanctions were to be invoked if they lapsed.

The United States delegations were always the most vociferous advocates of freer trade. In the earlier stages, certainly until the end of 1945, the British spokesmen were hardly less enthusiastic. It was the events in Washington, culminating in the Anglo-American Financial Agreement of December 1945, which sowed doubts in the official British mind and which led subsequently to a shift

in the emphasis towards full employment and away from the mere removal of restrictions.

A remarkable feature of the discussions at the many conferences preceding the establishment of I.M.F. and the International Bank, and again in the so-called Havana Charter (1947) for international trade, was their abstractness. The various experts tried to work out ideal models of how world trade and payments ought to work. To understand the proposals the best way is always to begin by saying 'Suppose there was equilibrium in all balances of payments to begin with, and a change occurred (e.g. a slump, or a major technical development) in country A . . . what would happen?' All kinds of hypothetical situations were considered and all kinds of rules and regulations made to deal with them when they arose. The I.T.O. Charter (which, incidentally, is now officially dead since the U.S. administration is not prepared for its virtually certain defeat if it were put to Congress for ratification), is a monument to the speculative ingenuity of economic experts. But nothing whatever was said about how the world was to get from the existing large disequilibrium to the desirable gateway of equilibrium through which the entry into the brave new world could be made.

It was in the Washington talks that the cold douche was delivered. The Americans would make Britain a large loan to tide her over the transition period if Britain would undertake to operate, unilaterally, the various clauses of the International Monetary Fund at once. The best terms the British could get were a postponement of one year after the ratification of the agreement by Congress—which duly took place in July 1946. Throughout 1947 sterling became increasingly convertible: since it was bound to become so by July 1947 many countries, e.g. Argentina, insisted on convertibility in various payments agreements contracted from January 1947 onwards. On 5 July full convertibility of all current transactions was in force: five weeks later it was at an end, never to reappear even as a remote possibility at any date since.

Of the American motives which led to the insistence upon early convertibility much has been written. The crucial point was that at that time the American administration was fantastically optimistic in its estimate of the time which it would need for world trade and payments to settle down into some sort of 'normal' pattern. It is not so much that it over-estimated the recuperative powers of Britain and Europe in the field of production: from 1945

onwards, with one or two exceptions, production, especially in industry, rose rapidly and never fell far short of forecasts which, when made, were considered too optimistic. It was that it did not fully grasp the damage done by the war to the fabric of trade and payments, especially by the exhaustion of reserves. Whether the British Government, with a better understanding of this question, was right in accepting a loan on terms which were, in the view of a large number of independent observers, impossible of fulfilment, is a different story. A good case can be made that where persuasion and explanation had failed only events would teach: meanwhile Britain got the vital dollars. Be that as it may, the convertibility crisis of August 1947 was foreshadowed in Washington on 6 December 1945.

The second stage of recovery in the international field was opened in the famous speech of Secretary of State Marshall at Harvard in June 1947. The Marshall Plan was a great leap forward towards realism in a number of important respects. In the first place, the recovery problem was put into a more reasonable time perspective. 1952 was to be the year of achieving equilibrium, i.e. more than six years after the end of the war. Indeed, by this time, some American experts were doubtful whether this date was not put too early. Secondly, the countries who wished to receive aid were to submit plans for production and trade to show how they proposed to achieve balance by 1952. Thirdly, the Marshall countries, or to use the subsequent terminology, the O.E.E.C. countries, were to be encouraged to take special measures to encourage trade between one another, to reduce the drain on dollar supplies. Implicitly they were told by the Americans to devise a means of discriminating against the dollar.

The Marshall Plan was remarkable both for its imagination and its realism. The chromium-plated models of I.M.F. and I.T.O. were quietly pushed aside and the new Organization for European Economic Co-operation (O.E.E.C.) and the American Economic Co-operation Administration (E.C.A.) took the centre of the stage. It is easier now than it was in 1947 and 1948 to show that even this great step forward was not enough: but there were observers who drew attention to the weaknesses from the very beginning. There were two important ones. Firstly, each O.E.E.C. country was asked to put up its four-year plan of recovery. This plan had to include estimates of exports, imports, and production. When the plans

were put side by side it was found that (1) O.E.E.C. countries were planning to sell to each other far more than they were planning to buy from one another, and (2) they were planning to sell to overseas markets, e.g. South America, far more than those markets could absorb, unless *per impossibile* the United States were generously to withdraw whenever an O.E.E.C. export turned up. The 'planning' was by no means as futile as these contradictions suggest. True, the parallel planning of investment never got very far, but countries were able to modify their own plans in the light of the expressed intentions of others. Also, the contradictions of the plans indicated the directions in which further economic co-operation should go. But progress was bound to be limited *so long as there were no equivalent U.S. intentions* which could be taken into account. Europe's dollar deficit was equal and opposite to the U.S. surplus with Europe.[1] It might not have been easy for O.E.E.C. to instruct their benefactor about how he ought to behave. Nevertheless their own trade plans could never make sense unless they were matched by equivalent U.S. plans for trade and lending.

The second weakness of Marshall Aid was that it offered, in its various stages, little incentive to countries to make special efforts, e.g. by restraining consumption, to restore their payments balances quickly. After devaluation the British gold and dollar reserves began to rise. As fast as they rose, so fast did the E.C.A. estimates of Britain's Marshall Aid needs fall. In such an absurd situation the decision to make a 'dash for freedom' and to do without Marshall Aid after the end of 1950 was the only one possible. Since events in 1950 were, by a series of coincidences, highly favourable to the British balance of payments, the risks were temporarily submerged. It is common form to attribute the violent crisis of the second half of 1951 to rearmament: but it is equally likely that the more fundamental causes already touched on would have produced a similar, if smaller, reaction anyway.

For the moment the preoccupation with defence has obscured the underlying problems of economic recovery and expansion. But they are still there. In a series of reports of 'experts' the U.N. Social and Economic Council has been working out plans which will

[1] This statement is deliberately inexact. The Dollar Area is frequently taken to include Canada. Also the dollar deficit arose not merely from direct payments to the U.S.A. but also to third countries who insisted on payment in dollars. The U.S. intentions were not the only missing piece in the jig-saw of world payments, but the largest.

bridge the gap between the approach of the Marshall Plan, which was to tackle a specific problem as it arose, and the wider approach of world economic policy, of which I.M.F. and the International Bank are the tentative, albeit inadequate, embodiments.

These schemes require that the United States should move even further towards assisting world expansion. From 1946 to 1950 the resistance of Congress to financial commitments more than a year ahead has been a constant source of difficulty. World economic expansion cannot be based on annual Budgets, liable to violent changes. To say this is not to blame the Americans for our mistakes. It is simply to recognize the overwhelming importance of the U.S. economy. For instance in 1952 the U.S.A. expects to produce 120 million tons of steel. This is as much as all the rest of the world put together, and is three-fifths of the output of the free world outside the Soviet bloc.

British economic interests—in fact Britain's capacity to maintain her present standard of living—lie in the most rapid expansion of investment and production in the world at large, including the backward areas of Asia and Africa. Her interest lies in large and continued U.S. lending abroad, whether directly or through the International Bank. She must continue to do her utmost to work in harmony with the U.S.A. This does not mean unconditional acceptance of every U.S. proposal and policy. The fact that the Americans are prone to learn the 'hard way' probably means that progress will be intermittent—from crisis to crisis. The temptation will always be strong to find some way out 'without the Americans', a temptation made all the stronger by uncertainty about their military intentions. But if one takes a longer view, a breach would not merely be against our interests, it would mean rejecting the opportunity to begin gradually to extend to all peoples the abolition of poverty so nearly achieved already in both Britain and America. So far as economics go the expansion of production and the raising of living standards throughout the world depend above all on a working partnership between the U.S.A. and Britain. We should be optimistic indeed to expect such a partnership to be freer from trials and tribulations than any other human relationship.

PART I

NATIONAL INCOME

CHAPTER II

NATIONAL INCOME, PRODUCTION AND CONSUMPTION

By DUDLEY SEERS

THE economic position as seen by most of the public can be summed up as follows: we ended the war poorer than we started it, and we have been growing poorer ever since. In terms of our national wealth, the assets owned by British people at home and abroad, this may have been true, at least up to 1946. But people discussing our collective poverty seem generally to be thinking rather in terms of the amount of goods and services we produce and consume. The statistical information, however, fails to support the opinion that we are in this sense poorer. In fact the official index of industrial production shows that the output of our manufacturing industries passed the 1938 level in the course of 1946, and that by 1950 it was nearly 50 per cent. higher. Are British industries really producing so much more? If so, why have we not felt very much better off? Which is false, the general view or the statistics?

In this chapter an attempt will be made to account for the difference between them and to assess what the truth is about our post-war poverty. Statistical data have been so abused, particularly by politicians, and their interpretation is indeed so difficult, that the widespread scepticism about what 'figures' show is understandable. We need to look carefully at any alleged fact, and search for its exact meaning, before we can try to fit it into the picture of the economy we all, even if unconsciously, continually construct in our minds. It may turn out to have a real and important significance, in which case we shall have to incorporate it somehow into our picture, even if it clashes violently with other parts and the neatness and simplicity of our view are lost. It may, however, be exposed as a braggart and imposter, telling us much less than it seems to tell us. Excessive cynicism about statistics is sometimes

used as an excuse for ignoring the unpalatable: on the other hand, naïve acceptance of a purely numerical argument is likely to be as dangerously misleading.

The production record

The interim index of industrial production shows the following changes in the output of manufacturing industries:

Manufacturing Output (1946 = 100)

1935	*1936*	*1937*	*1938*	*1946*	*1947*	*1948*	*1949*	*1950*
91	101	108	100	100	109	123	132	145

In judging these figures we must remember that 'manufacturing' covers a great many different types of activity, and that this index is the average of very different experiences. The output of chemicals had by 1950 reached double the 1935 levels, engineering goods had more than doubled, and there had been considerable increases in iron and steel output, but the output of cotton and leather goods was still less than in 1935, while wool and clothing industries as a whole had only just reached 1935 levels.

Nevertheless, this shows an average increase in output that seems to clash both with the view that people are much lazier today than they were, and with the general impression of lower living standards. Before trying to digest this information and assess its implications, let us take a careful look at how the index is constructed.

Changes in the output of various industries are weighted by the estimated value of their outputs in 1946 and then averaged to provide a single summary number. The main weakness is, of course, the paucity of information. Generally there are only figures for the output of the main products of an industry, and the whole output is taken to be adequately represented by one or two series—thus sugar output is used to represent all the goods produced by sugar refineries, including syrup, glucose, &c. Sometimes, moreover, the product is hard to define. To know, for example, the number of socks or suits produced does not tell one very much about the output of the clothing industry. The only procedure possible then is to use information on the money value of output and to try to remove the influence of price changes. In other cases, changes in the quantity of materials used, or even in employment, have to be

taken as clues to the progress of production. For all these reasons, it is difficult to measure precisely the changes in an industry's output. It also makes a difference what 'weight' is given to the various changes. The 'weight' depends on how much of the total value of output is produced in that industry, and this ratio varies from year to year, so that one may get different answers, all quite valid, according to the 'base' year selected. Altogether, too much cannot be concluded from a single index, for it is unavoidably an artificial and imperfect indicator.

The official index uses, however, hundreds of different series, covering all sorts of products from steel ingots to pen nibs. The results are available with 1935 as well as 1946 'weights', and these show a more definite rise between pre-war years and 1946.[1] Moreover, other indexes are available for comparison and show much the same answer. Still this does not guarantee that the official production index is correct. All the index numbers may be subject to the same sort of bias: they all use much the same information. We had better wait until we see whether the record of manufacturing output can be reconciled with changes in living standards before believing it. The first step in attempting such a reconciliation is to examine the changes in other sorts of output and see whether they have increased to the same extent. (Table 1.)

The official index of production covers mining, building, and utilities (gas, electricity, and water), as well as manufacturing. It seems that the total for all industries rose rather less above 1938 than the total of manufacturing industries alone. The output of the 'utilities' group actually increased even more, largely because well over twice as much electricity was being generated in 1950 as in 1938. But output in building and mining was still, even in 1950, well below the 1938 levels. All the series, however, show upward progress for the post-war years,[2] checked at first by the fuel crisis of 1947, but afterwards going ahead quite rapidly.

Of course, even if production has risen since before the war, this does not mean that industry may not be, in some sense, to blame

[1] Prices had, rather naturally, risen least in the industries whose output had risen most: so smaller 'weights' are given to the highest rises in output if we use 1946 rather than 1935 'weights'.

[2] This post-war rise may be rather exaggerated for manufacturing. Because of the conversion to civilian products, much of the 1946 production was absorbed in filling up the assembly lines and factory storerooms, and did not appear in 'output' figures for that year.

for our post-war difficulties. For one thing there are more people working, because of the growth in population and the virtual end of unemployment, and this in itself would mean higher output even if there were no change in efficiency or effort. Can we analyse

TABLE 1

Indexes of Industrial Production (1946 = 100)

Year	Official					London and Cambridge 'B'.
	Manufacturing	Mining	Building	Utilities	All industries	All industries
1935	91	122	127	62	95	97
1938	100	126	143	71	104	n.a.
1946	100	100	100	100	100	100
1947	109	102	111	103	108	108
1948	123	110	122	109	121	118
1949	132	113	127	113	129	126
1950	145	114	133	120	140	135

Sources: *Board of Trade Journal* and *Bulletin of the London and Cambridge Economic Service.*

the changes of output into what is due to higher employment and what to changes in output per man employed? Let us examine each sector of industry in turn.

The progress of manufacturing employment is shown in the accompanying Table 2.

TABLE 2

Manufacturing Production and Employment (1946 = 100)

	1938	*1946*	*1947*	*1948*	*1949*	*1950*
Production . . .	100	100	109	123	132	145
Employment . . .	108	100	107	110	112	114

Source: See 'Employment' *Ministry of Labour Gazette* (adjusted for comparability).

The achievement of the same level of output as in 1938 with a smaller labour force suggests that, despite the reconversion problems of 1946, *average* output per man-year was already by then above 1938, doubtless mainly as the result of war-time technical advances. Output rose only slightly faster than employment during 1946–7, but since then the former has risen much more rapidly, suggesting a considerable increase in 'productivity'. A closer look

at the record shows that it has risen most rapidly in industries, such as motor vehicles, which until 1950 were enjoying a rise in steel supplies.

Average hours worked in manufacturing industries fell immediately after the end of the war, though the extent of the fall is uncertain, since information is only available for individual weeks and not for the whole year. The average working week numbered 46·5 hours in October 1938, 46·2 in October 1946, 45·2 in October 1947, and then 45·3, 45·4, 46·1 in the following Octobers. Since more people enjoyed paid holidays, and these lasted longer in the post-war period, the increase in production per man-hour since before the war must have been greater than the increase in production per man-year. To put the same point another way, some of the benefit of the rise in output per man-hour was taken by employees in more leisure.

The number of miners has remained smaller than pre-war, despite the monetary and other inducements used by the authorities to attract recruits. By 1950 the output per man-year in mining had reached the pre-war level, and if we allow for longer holidays and fewer shifts worked per week, output per shift was definitely higher. It is true that mechanization had greatly increased in the post-war years, but in many mines worse seams were being worked, so that we cannot cite this improvement as evidence to praise or blame anyone in particular. Of course, despite this rise in productivity, mining output was not nearly enough for industry or domestic fires, let alone for the foreign buyer, but here the explanation appears to be the unwillingness of the rest of us to become miners.

Statistics on pre-war employment in building are not good, but it seems that the labour force was some 5 per cent. above the 1938 level by 1948, after which it hardly changed. Conclusions about productivity should always be cautious. There are not only the usual uncertainties of an index number, which are particularly great for building output, but if one is to reach firm conclusions one also needs to know how the labour force is composed, e.g. how many are juveniles, how many unskilled, how many clerical, and so on. If the increase is wholly a greater number of untrained youths, it hardly helps output, and may hinder it. These figures, however, do strongly suggest, as does other evidence,[1] that there has been a fall

[1] See, for example, the Reports of the (Girdwood) Committee on House-building Costs and the Building Operations Working Party.

in productivity per man-year of building employment, too sharp to be accounted for by changes in the composition of the labour force, and which had only partly been recovered by 1950. If the building industry had produced at the pre-war rate, we could either have built more with the labour force, or used a smaller labour force for what we did build, releasing labour for other purposes. To inquire into the reasons for this fall would take us too far afield for this essay.

The higher output of 'utilities' had not involved much increase in employment, though obviously productivity measurements do not convey much in this case, since the real labour cost is incurred in mining the coal used for generation of gas and electricity.

Higher employment has therefore played some part in increasing industrial output, though it does not wholly account for the rise since 1938. Higher productivity seems to have been the main cause, except in the building industry—that is, provided we find we can trust the production index. (Table 3.)

We have already seen that the proportionate rise in total 'industrial' output is less than that for manufacturing industries by themselves. If we also take into account the service sector of the economy—transport, distribution, government, &c.—and think in terms of the volume of total national production of all kinds, the rise appears smaller still. This is in fact one of the reasons why the rise in manufacturing output considered alone is rather misleading, even if it is true. Manufacturing, despite its expansion after the war, is still responsible for less than half the total national product. The value of output of different sectors of the economy in 1948 has been officially estimated as shown in Table 3.

On the assumption that the quantity of manufacturing output was 23 per cent. higher in 1948 than in 1938 (see above), the value of output in 1938 would have been about £3,110 million *if 1948 prices had applied then.* So the increase was apparently about £700 million at 1948 prices. There was another increase of 19 per cent. in output between 1948 and 1950, so that altogether output rose between '1938 and 1950 by an amount which would have been worth about £1,400 million at 1948 prices. Working like this 'at constant prices' is rather artificial, but it does enable different economic changes to be compared. We can estimate in the same way the changes in output of other parts of the economy, though such estimates are bound to be only rough. The output of the public

sectors, for example, and services, are measured by the employment they provide, tacitly ignoring changes in productivity.[1] In view of this roughness we would not be justified in quoting results to anything less than £50 million.[2] (Table 4.)

TABLE 3

Value of Output in 1948 (£ million)

Agriculture	560
Mining	380
Manufacturing	3,830
Building	570
Utilities	210
Transport	910
Distribution	1,360
Domestic service	110
Other services	1,220
Dwelling ownership	420
Public administration	580
Armed forces	250
Social services	260
Gross domestic product*	10,650

Source: *National Income and Expenditure of the United Kingdom: 1946 to 1950* (Cmd. 8203). Detail does not add to total because of rounding.

* Output is valued as proceeds of sales *minus* cost of materials, or, as it is sometimes called the 'value added' in each sector of the economy. No deduction is made for depreciation of capital. For administration and the armed forces it is just the total of payment to employees (together with the cost of maintaining buildings, which is taken to represent their actual depreciation in use). Gross *domestic* product differs from *national* product (or *national* income) in excluding property income from abroad, but including dividends and interest arising here and payable to foreigners. It covers in fact the income arising in the United Kingdom rather than the income of United Kingdom residents.

[1] It might also be argued that the increase in public administration should be omitted, as being only the consequence of doctrinaire policies; or alternatively (following Professor Kuznets) as being the necessary cost of making the other rise in output possible. On either of these grounds, one may want to assess the increase in domestic product as rather lower than is shown here. However, these arguments are irrelevant to the reconciliation I am attempting, since there would have to be corresponding adjustments to government current expenditure below.

[2] The methods used are explained in a paper by the author published in the *Bulletin of the Oxford Institute of Statistics* for June 1949. The comparison is made with 1938 henceforward, because it is the pre-war year for which most information is available. Since 1937 was a year of higher output and consumption, the improvement would look rather smaller if we used 1937 as the pre-war year. However, 1937 was an exceptionally good year and 1938 was more representative of pre-war conditions.

On balance there were more gains than losses, even outside manufacturing. Agricultural output rose, due to increases in both crops and milk production. So did that of transport, with increases in both travel and freight carried (especially on the road), and also in postal services, which are included here. The other substantial increases were due to the doubling of the numbers in the armed forces and the increase of several hundred thousand persons in both central government and local government service. The only

TABLE 4

Output Changes between 1938 and 1950 at 1948 Prices (in £ hundred millions)

Agriculture	+ 1
Mining	− ½
Manufacturing	+14½
Building	− ½
Utilities	+ 1
Transport	+ 2½
Distribution	+ ½
Other services	− 1
Dwelling ownership	+ ½
Public administration	+ 1
H.M. Forces	+ 1
Total domestic product	+20

substantial fall in output, apart from those in mining and building, which have already been discussed, was due to the reduction of about a million in the number of domestic servants.

Output outside manufacturing, however, rose apparently by a much smaller proportion than it did in manufacturing itself. The increase in total output was about £2,000 million at 1948 prices, or some 20 per cent. To say how much of the rise occurred in the post-war period would be difficult, but on the evidence available the answer seems to be over three-quarters. The 1946 level of output generally was not much above pre-war—the armed forces accounted for a good deal more, but this was offset by lower levels of production elsewhere. The conflict between statistical evidence and 'common knowledge' now ceases to look quite so awkward—we have to account for not a 50 per cent. but a 20 per cent. rise in production, when all forms of output are taken into account. We

can try to get some check on this estimated rise in output by seeing whether we can account for the rise in terms of what was done with output.

The use of resources

The most striking change since before the war is the great increase in exports.

TABLE 5

The Balance of Payments, 1938 and 1946–50 (£ million)

	1938	*1946*	*1947*	*1948*	*1949*	*1950*
Exports of goods	533	905	1,135	1,584	1,822	2,223
Exports of services	205	524	482	601	583	760
Total exports	738	1,429	1,617	2,185	2,405	2,983
Net property income	163	51	−2	−1	25	75
Total receipts	901	1,480	1,615	2,184	2,430	3,058
Surplus of payments over receipts	70	344	545	29	−21*	−221*
Total payments	971	1,824	2,160	2,213	2,409	2,837
Imports of goods	835	1,081	1,560	1,790	1,973	2,382
Imports of services	136	743	600	423	436	455
Total payments	971	1,824	2,160	2,213	2,409	2,837

Sources: Cmd. 8203 adjusted from *United Kingdom Balance of Payments: 1948 to 1951* (Cmd. 8379) for the later years.
* Surplus of receipts.

At the end of the war exports were quite inadequate to pay for our food and materials. Ever since the nineteenth century the value of exports had been less than the value of imports, but we had largely covered the deficit with the income on our vast investments overseas, which yielded dividends and other property income. For most of the 1930's this deficit was too large to be covered by property income, and we were left with payments exceeding receipts. In 1938, for example, we were failing to balance our international payments by £70 million. During the war our industries turned to arms production and exports fell. Much of our imports was supplied under Mutual Aid agreements, but we had to sell over £1,000 million of overseas investments, including many dollar assets; and we also borrowed extensively, mainly by crediting the sterling accounts of our suppliers, thus creating the so-called 'sterling

balances'. When the war ended we were no longer a major creditor nation, and could not pay any more for much of our imports with property income. Merely to have turned the 1938 surplus of payments over exports (£233 million)[1] into the 1950 surplus of exports over payments (£146 million) which was needed to offset the fall in property income, and to help restore the strength of sterling, would have taken nearly £400 million.

The task of paying for our imports was made harder still by the violent price rise. In 1945 our export and import prices were both just under double pre-war, but by 1947 import prices were 2·6 times pre-war compared to 2·2 times for exports. The terms of trade, which had been exceptionally favourable to us for the inter-war years in comparison with those of the nineteenth century, had started to turn against us. They deteriorated a little more in 1948, and in two further steps: after the devaluation of sterling in September 1949 and in the first year of the Korean War. We can show the effect of world price changes by estimating what the values of our exports and imports would have been if 1948 prices had held over the whole period—ignoring property income, which has already been taken into account.

The gap to have been covered by our property income would have been far too big in 1938, if 1948 prices had been operating. On the other hand, even 1948 prices were favourable to us compared to those of 1950. If 1948 prices had still applied in 1950, there would have been quite a substantial export surplus even excluding any property income.

Table 6 shows that the change in world prices since before the war would have necessitated our exporting an extra £550 million (at 1948 prices) to eliminate the import surplus of 1938,[2] and another £150 million extra to achieve the export surplus of 1950. The rising prices and worsening of the terms of trade thus cost us about £700 million of our higher output in 1950, over and above the £400 million already mentioned which was needed to offset the loss of property income and to help restore the strength of sterling.

International developments therefore absorbed altogether about £1,100 million,[3] over half the increased output, or more than the

[1] The last line in Table 5 *minus* the third line.

[2] This is shown by deducting the actual import surplus in 1938 (£233 million) from what it would have been at 1948 prices (£800 million).

[3] This can be seen in another way. Table 6 shows that we exported £860

whole output of the agriculture and mining sectors in 1948. And yet our export drive still did not permit a return to the 1938 volume of imports. We still have, however, to account for £900 million of the estimated increase in output if the production record is to be confirmed,[1] and must now look at changes in capital investment and government expenditure before reaching personal consumption.

TABLE 6

Foreign Trade at 1948 Prices[2] *(£ million)*

	1938	*1946*	*1948*	*1950*
Exports of goods and services at 1948 prices	1,950	1,750	2,185	2,800
Imports of goods and services at 1948 prices	2,750	2,200	2,213	2,500
Surplus of imports over exports at 1948 prices	800	450	28	−300*
Actual surplus of imports over exports at current prices	*233*	*395*	*28*	*−146**

* Surplus of exports.

The next type of expenditure which used more goods and services was investment at home, in buildings, machinery, and stocks. Changes in this are not so easy to assess. We have estimates of the money value of various sorts of investment, but there are no accurate price indexes. As we saw above, building work was less than before the war, but investment in machinery was at perhaps double the pre-war level, and investment in commercial vehicles higher by about half as much again as in 1938. Investment in stocks was also rather higher. Altogether investment seems by 1950 to have been running at a level about £100 million higher than that of 1938 (at 1948 prices). Investment fell very low in the war, and

million more and imported £250 million less in 1950 than in 1938 if we work in 1948 prices.

[1] Actually £950 million, because we were working above in 'factor cost' of production, which excludes indirect taxes. We really ought to take these into account, and work in 'market prices', when we are comparing the purchases of goods and services.

[2] It must be emphasized that estimates at constant prices show what expenditure would have been if the prices of 1948 had applied throughout and the quantities bought had been the same as they actually were. They therefore provide a guide to the quantity of expenditure.

was increasing over the post-war years, using up much of the increase in output.

The only other final buyer, besides the consumers, was the Government. We have already seen that the output of administrative and defence services (in man-years) was higher, which implies a corresponding increase in government current expenditure.[1] Purchases of goods and services by the Government had also increased to cover the increases in social services and military expenditure. Altogether the Government was using up about £350 million more of the product than in 1938 (also at 1948 prices), though it was using much less than in 1946, when we were still partly mobilized.

We are left with about £500 million (at 1948 prices) more for the consumer, comparing 1950 with 1938. This figure has been reached as follows:

	(*£ hundred million*)
Increase in output	20½ (at market price)
—Effect of changes in world prices	−7
—Improvement in trade balance (to cover loss of foreign assets, etc.)	−4
—Higher capital investment	−1
—More government spending	−3½
Increase left for the consumer	5

Here at last we have come to the increase in the consumer's purchases which is implied by the increase in output, and here we can make a check, because there is information on the changes in consumption, to be found in the National Income White Paper. This information does in fact show an increase in real consumption of about this amount if we work in 1948 prices. In fairness, one must point out that it was something of a statistical fluke to get so exact a check. There are unavoidable error margins in some of the estimates, particularly that for capital investment, and estimates for other years do not come out quite so well. Still the check is without doubt broadly valid. Before accepting this reconciliation, let us look at the changes in real consumption a little more closely.

[1] 'Expenditure' means here the goods and services bought by the Government, and excludes, for example, payments such as social security benefits and food subsidies, which are usually included in 'expenditure' but do not represent a purchase of part of the domestic product. Purchases of goods for resale (e.g. by the Ministry of Food) are also of course excluded.

Table 7 shows how personal expenditure at 1948 prices changed between 1938 and 1950, and how the increase of just over £500 million in total consumption was composed.

TABLE 7

Personal Expenditure at 1948 prices (£ million)

	1938	*1946*	*1948*	*1950**
Food	2,170	2,060	2,215	2,380
Drink	820	785	762	760
Tobacco	690	910	773	755
Rent	550	575	598	620
Fuel and light	285	320	339	360
Furniture and hardware	550	340	435	540
Other household goods	90	75	83	100
Clothing	935	690	853	945
Reading matter	75	110	126	145
Motoring	250	140	105	160
Travel	215	330	340	345
Postal services	40	55	57	60
Entertainment	110	185	180	175
Domestic service	265	80	95	85
Other services	605	715	750	710
Other goods	410	335	392	405
Forces' food and clothing	30	130	39	30
Foreign travel	85	125	95	95
Less Expenditure of foreign tourists here	−80	−15	−33	−55
Total	8,095	7,945	8,204	8,610

Source: Cmd. 8203 (the 1938 estimates are constructed from estimates of price changes in this White Paper).

* Detail does not add to total because of rounding.

At the end of the war consumption was less than before the war for many items, mainly the manufactures, such as clothing and furniture, whose production had been curtailed in the war. This was balanced, according to Table 7, by higher consumption of commodities which had not been curtailed, such as tobacco and entertainments. But it was only an apparent compensation, for people spent their money on these partly because of the difficulty of finding in the shops what they really wanted. As supplies of clothing and furniture increased after 1946, the consumption of these luxuries fell to levels more like those of 1938. Still, the increase in total satisfaction, however defined, between 1938 and 1950 must be rather exaggerated by a comparison between the total consumption in both years, for in 1950 people were not able to spend their money as they pleased. Consumption of fruit, potatoes, vegetables,

and dairy products was considerably above pre-war levels in the post-war years, but, largely because of import restriction, consumption of meat and bacon was lower, and so was that of fats until 1950. No doubt people would have preferred to spend more on (say) meat if it had been available: potatoes were probably an inadequate substitute.[1]

The increase in real fuel consumption may seem rather surprising. Domestic consumption of coal, which is rationed, is below its pre-war level, but people have bought much more gas and electricity, domestic consumption of which was three times the 1938 level, to make up for the deficiency of coal. These changes, like many others in consumption, reflect the different changes in the output of various industries described above.

The increase in travel, for example, reflects the increase in road transport. Rail travel had dropped by a quarter from 1946 to 1950, reaching a level not much above the pre-war level, but other sorts of passenger travel had increased sharply. Private motoring, on the other hand, had not nearly reached pre-war volume even by 1950. Petrol rationing was abandoned in the spring of 1950, but there was less motoring than in 1938 despite the rather surprising fact that many more cars were licensed than before the war. This, like the heavy drop in domestic service, is a further clue to the explanation of why people feel poorer.

Before we take up these clues, we need to look at a number of reasons for treating the comparison of consumption rather cautiously. The first can be illustrated by the considerable increase which the table shows in consumption of reading matter. The number of books and magazines sold seems to be about double, and even the number of newspapers sold has increased by over a half. But this takes no account of the fewer pages in magazines and newspapers, and to some extent in books. It is difficult to say how much we lost, and even whether we lost at all, by having fewer pages. Many readers, at least of the 'serious' newspapers, believe that we lost something, and to measure newspapers by numbers sold is obviously somewhat artificial. The difficulty is really that the commodity called a 'newspaper' has changed, and it is not easy to compare the pre-war 'newspaper' with the post-war one.

[1] This does not of course mean that there should have been no rationing—as a personal opinion, the consequent inequalities of food consumption would have reduced welfare even more.

This is, however, only one example of a changed commodity. There would be fairly widespread agreement that a large number of commodities are 'not what they were'. We know this to be true of coal, for example, whose calorific value has fallen. There have been many improvements in design, and many commodities are practically unchanged (notably foodstuffs and tobacco), but clothes do not appear to wear so well, cars are not so carefully finished, telephone connexions are worse, and services by retailers and hotels are less elaborate.

On balance the consumption figures for 1938 may well be undervalued in the table above. The official statisticians have allowed for the weaker beer in their comparisons between before and after the war, but it is impossible for them to allow for many other quality changes. So the improvement since 1938 is somewhat overstated.[1]

There is another important reason why we do not feel quite so much better off as these figures suggest, and this is that the population has increased. The total population of the United Kingdom (including merchant seamen and overseas forces) was as follows:

TABLE 8

Population of United Kingdom

	June 1938	*June 1946*	*June 1948*	*June 1950*
Million of persons	47·7	49·2	50·1	50·6
Index (*June 1938 = 100*) . . .	100	103	105	106

Source: *Monthly Digest of Statistics.*

The rise of about 10 per cent. in total quantity of food bought becomes only 4 per cent. when considered *per caput*. Similarly, the clothing and furniture bought in 1950 were still below 1938, when measured as an average per head of population. It is true that the proportion of infants under five had risen sharply, with the post-war 'boom' in babies, and their needs were of course not as great as those of adults; nevertheless the population increase almost disposes of the 7 per cent. rise in total real consumption.

There is one way, however, in which the comparison of real consumption is rather disadvantageous to 1950: the increase in govern-

[1] This applies of course also to the comparison of production above, which took no account of quality changes (except in so far as they were allowed for in the cases where values of output were deflated by price indexes).

ment expenditure on social services was to some extent a substitute for personal expenditure on medical and educational services. If we allow for all these qualifications, it seems that there was no significant change in real consumption *per caput*, or rather that any change which did occur was within the margin of error of these calculations. We have in fact managed to show that the considerable increase in manufacturing output is compatible with unchanged consumption levels since 1938.[1]

Changes in the distribution of income

The conclusion that on the average people were in 1950 as well off as in 1938, in the sense that they could buy on the average about the same amount of goods and services, may still seem surprising. This is certainly not the impression a foreigner would get from reading the British Press, and the undergraduate is probably well aware that his material prospects are worse than those of his pre-war counterpart.

The explanation lies in the expression 'on the average', for the generalization conceals a wide variety of different individual experiences. Of course, we cannot separate out each individual case, but we can find some general tendencies by picking out social groups

TABLE 9

Distribution of Domestic Product by Source of Income (£ million)

	1938	*1946*	*1948*	*1950*
Wages	1,735	3,140	4,025	4,470
Salaries	1,110	1,790	2,200	2,500
Employers' national insurance contribution	54	84	157	198
Forces' pay	78	530	246	250
Professional earnings	84	133	161	182
Farming income	64	190	261	302
Traders' profits*	440	765	810	845
Corporate profits	572	1,290	1,728	1,879
Rent	416	438	470	496
Domestic product	4,553	8,360	10,058	11,122

Source: Cmd. 8203.

* Profits of shopkeepers, small manufacturers, and others who are 'self-employed'.

[1] So far as welfare comparisons (though not this statistical reconciliation) are concerned, the fact that consumption in 1937 was slightly higher than in 1938 should also be borne in mind.

which have on the whole gained, and also those which have on the whole lost, in the buying power of their incomes.

Let us look first at the wage-earners' share in the total value of output, since this is one of the fundamental influences on the distribution of the national product between different social classes. Estimates made by Professor Bowley suggest that this proportion has not varied very much since about 1880. In Table 9 we show the recent development of income distribution according to official estimates.

Table 9 implies that the share of wages has moved as follows:

	1938	*1946*	*1948*	*1950*
Share of wages as a percentage of domestic product* . . .	38·1	37·6	40·0	40·2

* We could define the domestic product as including depreciation allowances, to cover wear and tear of capital, but this would make little difference to the comparison since these allowances have risen at about the same rate as has the national income. We could also exclude the profits made solely out of inventory gains. This would show a larger rise in relative wages, because stock appreciation was negative in 1938, a year of falling prices, but substantial in 1948 and 1950, years of rising prices. Whether to include stock appreciation is an awkward question, but it is counted as income by the tax authorities and accountants, included in the estimates of past national income, and cannot be separated out from farming and traders' income. So it seems better to leave it in here.

There has been a slight rise, but less than many people would think, and even what is shown here is somewhat misleading. We have seen above that manufacturing now accounts for a larger share of national output, and this would of itself tend to increase the share of wages in the value of national output, because wages form a high proportion of the value of manufacturing output, in fact about 50 per cent. The change between 1938 and 1950 can, indeed, roughly be attributed to the sharp rise in manufacturing, while the low 1946 figure can be explained by the incompleteness of demobilization.

This table superficially suggests, therefore, no major change in income distribution, and it even shows a considerable rise in corporate profits, which implies a move towards greater inequality. There are, however, many other things to be taken into account before we can conclude much about the relative positions of the social classes—notably dividend limitation, taxation, social security, and subsidies. But it is still important that incomes *at their source*

were distributed only a very little more favourably to wage-earners. One implication is that the gross profit margin, i.e. the ratio of selling price to wage cost, is on the average unchanged. This is consistent with the theory that employers try to offset a rise in wages by the same proportionate increase in prices. There has, however, been a considerable change within 'gross profits': salaries have increased by a smaller proportion than wages, and rents have not risen much. The inflexibility of these items explains the considerable rise in corporate profits.

This rise in profits has not caused a corresponding rise in payments of interests and dividends. 'Corporate profits' are not merely company profits—they include also the profits of public corporations, such as the nationalized corporations, and the increase even in company profits was not fully distributed to shareholders. There are two main reasons for this. One is the increase in taxation on profits, which rose from about £100 million in 1938 to over £700 million in 1950; and the other is that a much larger part of available profits is put into reserves. There seems to be a long-run tendency for the proportion of profits distributed to fall, but firms were also particularly anxious to build up reserves in the post-war years, because the depreciation allowances permitted by the tax authorities (based on pre-war costs) were not enough in many cases to cover the post-war cost of replacing worn-out equipment. In addition, the Government announced that they expected dividends to be limited, and threatened statutory limitation of dividends if this appeal was ignored. So the dividend payments by companies rose at a very much slower rate than did corporate profits. Dividends and interest paid by companies[1] were as follows:

(*£ million*)

1938	*1946*	*1948*	*1950*
560	755	796	827

Other sorts of property income were not much more buoyant. War-time borrowing increased the national debt considerably, but the rise in public debt interest, from £291 million in 1938 to about £600 million after the war, was still a smaller proportionate rise than that of other incomes, largely because of the 'cheap money' policy which had held down interest rates during the war. Rents

[1] Including payments to other companies as well as to individuals.

were also limited over a wide field by rent restriction. Finally, the table above shows 'domestic' or home-produced income, and omits net dividends and interest from abroad, which fell sharply.

Altogether, personal receipts of property income moved as follows:[1]

(£ *million*)

1938	*1946*	*1948*	*1950*
1,111	1,454	1,433	1,532

Excluding undistributed profits (and employers contributions to national insurance) we get the following estimates of the share of wages in *personal* income from work and property:

	1938	*1946*	*1948*	*1950*
Share of wages, as percentage of personal income . .	37·5	39·2	44·1	44·3

This shows a much sharper rise in the share of wages, too big to be accounted for merely by the increased importance of manufacturing. We have, however, been comparing incomes *before* the deduction of taxes, which must be taken into account if we want to measure the changes in the distribution of *spendable* income.

The change in income distribution comes out more sharply there, but Table 10 still understates the levelling process. The number of wage-earners seems to have risen only slightly, so that average wages must have much more than doubled (a conclusion which is confirmed by the Ministry of Labour's enquiries into weekly earnings). On the other hand, there has been a considerable rise in the number of salaried workers, due to the growth of administration discussed above, so that the average salary had less than doubled by 1950. Forces' pay had rather lagged behind, but the rises granted in the autumn of 1950 brought the average pay increase to rather over double, much the same proportion as for employees generally.

[1] For many purposes we need to take undistributed profits into account when considering income distribution: they are at the disposal of the shareholders' representatives. But for the purpose of our present investigation, into living standards, such additions to company reserves are not relevant.

Within social classes there has also been some equalization. The wage-rates of the unskilled have risen in greater proportion than those of the skilled; and, while the lower-paid salaried employees had rises comparable to those of wage-earners, the higher-paid

TABLE 10

Personal Income After Deducting Taxes on Income (£ million)

	1938	*1946*	*1948*	*1950*
Wages	1,632	2,800	3,585	3,955
Salaries	1,050	1,482	1,866	2,112
Forces' pay	77	510	223	228
Personal profits and property income	1,448	1,969	2,049	2,197
Total personal income from work and property	4,207	6,761	7,723	8,492
	Percentages			
	1938	*1946*	*1948*	*1950**
Wages	39	41½	46½	46½
Salaries	25	22	24	25
Forces' pay	2	7½	3	2½
Personal profits and property income	34	29	26½	26
Total personal income from work and property	100	100	100	100

Source: Cmd. 8203.
* Items do not add to total because of rounding.

salaried employees have not had nearly such large increases. Changes within the structure of forces' pay reflect those elsewhere, the lowest-paid having gained most.

The last category (personal profits and property income) is a very mixed bag. At the lower end it contains farming incomes, which have on the average (even after paying taxes) more than trebled, and shopkeepers' profits, which have risen less rapidly but still substantially: at the upper end are dividends, interest, and rent, the total of which may not have risen at all, after taxes are deducted, and which may be more evenly spread over the community than they were.[1]

[1] Mrs. Langley's estimates in the *Bulletin of the Institute of Statistics* (Feb. 1951) show that capital is more equally distributed than it was before the war, though there are still great inequalities. For example, on her estimates, the wealthiest 1 per cent. owned 50 per cent. of all capital in 1946–7 compared to 55 per cent. in 1936–8 (and 70 per cent. in 1911–13).

The main changes had occurred by 1948. The share of wages in post-tax income had already increased sharply by 1946, though it was still camouflaged somewhat by the retention of wage-earners in the forces. Wages and profits continued to mount after the war, but dividend limitation checked the growth of property income, and from 1948 wage stabilization checked the growth of wages. Salary-rates had previously lagged behind wage-rates, but salaries made up some of the lost ground between 1948 and 1950, as one section of salary-earners after another received substantial increases in pay.

The post-war pattern is now fairly clear: wages and forces' pay have moved up roughly from two-fifths to half of the total, a larger body of salary-earners retains a quarter share, and personal profits and property income have dropped from about a third to about a quarter of total personal income after tax.

There is one further sort of income to discuss: 'transfer' incomes, paid out of the taxes levied on other incomes. Their increase reflects the adoption by the Government of the 'social security' programme along the lines suggested by Lord Beveridge.

TABLE II

Transfer Incomes (£ million)

	1938	*1946*	*1948*	*1950*
Social security pensions	94	155	296	311
National assistance	—	51	29	58
Sickness benefits, &c.	22	32	51	93
Unemployment benefits	113	45	31	20
Family allowances	—	19	61	64
Milk schemes, school meals, &c.	—	43	58	70
War pensions	38	82	82	79
Educational, training and cultural grants	5	27	45	47
War gratuities and release leave pay	—	391	28	1
Repayment of income tax credits	—	54	23	17
Other	4	4	2	3
Total	276	903	706	763

Source: Cmd. 8203.

All types of transfer income show substantial rises compared to 1938—with the notable exception of unemployment benefits—and most of them show further rises over 1946–8 when the new social security provisions were coming into force. Supplementary pensions

and other national assistance, which are designed to take care of those not fully protected by the ordinary benefits, then fell to a very low figure, and their rise since 1948 reflects the increasing difficulties of pensioners as living costs rose.

Despite the fall in unemployment, the total of transfer payments has risen considerably, in fact rather faster than other personal income. In time, as those on high incomes become eligible for contributory pensions, the benefits will be more widely spread, but at present they must help mainly the poorer classes. So this is a further factor levelling incomes. If we include most of forces' pay and transfer incomes, the purchasing power of the wage-earning class was well under half of all purchasing power before the war, but rather over half in 1950.

There is another way in which we can show this development and that is to examine income distribution by *size* of income, instead of by *source*. The National Income White Paper gives the following information:

TABLE 12

Distribution of Income in 1938 and 1949

Range of Income (£)	1938 Number of incomes ('000)	1938 Amount (£m.)	1938 Amount left after paying taxes on income* (£m.)	1949 Number of incomes	1949 Amount (£m.)	1949 Amount left after paying taxes on income* (£m.)
Under 250	n.a.	2,559	2,555	n.a.	2,209	2,185
250–499	1,890	631	611	10,310	3,546	3,360
500–999	539	361	322	2,443	1,614	1,375
1,000–1,999	183	247	202	545	728	539
2,000–9,999	98	361	256	219	760	436
10,000–19,999	6	76	39	9	110	33
Over 20,000	2	87	30	2	80	11

Source: Cmd. 8203, supplemented from the Inland Revenue Commissioners 92nd Report for the top income group. Note that a married couple is only considered to have one income.

* At the tax rates of the financial year.

It will be seen at once that the higher up the scale one goes, the smaller the difference in the number of incomes between 1938 and 1949. This reflects the sluggishness of the highest incomes—nearly

all people who would have been in the £250–£499 group in 1938, were in the next higher group in 1949; but there has been an increase of only a couple of hundred in the top group. The ten-millionth income from the top, probably that of an unskilled labourer, was very low indeed in 1938, in fact about £130[1]: in 1949 it was more like £300, rather over double—which is consistent with our conclusions about wages above. The three-millionth, possibly a clerk's, was a little under £250 in 1938, and a little over £500 in 1949, about double. The eight-hundred-thousandth, perhaps that of a professional man, was just over £500 in 1938 and a little under £1,000 in 1949. The lowest income of the 'upper ten' thousand was slightly under £10,000 in 1938, and slightly over in 1949.

The effect of the change in tax rates is also shown. The unskilled labourer, assuming he had a wife and two children, would not have paid income tax in either year, while the representative clerk with the same size family would have been paying no income tax before the war, and was paying about 5 per cent. of his income in 1949. At the other end of the scale, a man with a similar family, receiving £20,000 a year of earned income, had £10,000 left after tax in 1938 and under £5,000 in 1949. So the proportion of spendable income in the hands of the highest income groups, who tended to receive property income and the higher salaries, fell substantially. The richest 800,000 had about £840 million left in 1938, compared to about £1,040 million in 1949. The two million after them had about £640 million in 1938 compared to £1,150 million in 1949. The remainder, roughly 'the working-classes', had £2,500 million in 1938 and £5,750 million in 1949.[2] So the distributions of income by size show much the same social change as those arranged by source of income—that the higher an income was in 1938, the smaller has been its rise since then, particularly after taking taxes into account.

It does not follow that the rich have lost in living standards to quite the same extent. Expense allowances have greatly increased, and many are living on capital. These are, however, relatively minor considerations compared to the changes in income.

[1] See the 92nd Report of the Inland Revenue Commissioners, Table 85.

[2] Excluding income omitted from this table (but not from the table showing personal income by source), such as interest on Savings Certificates, income on life assurance funds, income in kind, &c. Some of this excluded income is attributable to the rich and some to the poor.

We still have not shown that wage-earners have improved their position *absolutely*. The rise in their incomes may have been less than the increase in prices. Economists are not very well supplied with comparisons of prices before and after the war. The National Income White Paper does, however, give us some information on this point. It estimates that the goods bought by the public in 1948 cost 82 per cent. more than they would have cost in 1938. Broadly speaking therefore the 'cost of living' for the whole nation had gone up by about 82 per cent. This itself seems rather difficult for people to believe. One's instinctive reaction is to remember that cigarettes cost over three times as much, that many people have to pay exorbitant rents, that a cauliflower which one could buy in 1938 for . . . and so on. People tend to pick out the most flagrant cases, and to forget that the majority of the population pays the same rent (because of rent control), that electricity charges are little if at all higher, and above all that essential foods are subsidized.[1] The wide variety in price changes is brought out by the White Paper, which gives the following index numbers:

TABLE 13

Prices in 1948 (1938 = 100)

Food	166	Travel	132
Drink	289	Communications	133
Tobacco	388	Entertainments	171
Rent	112	Domestic service	216
Fuel	144	Other services	154
Household durables	236	Other goods	232
Other household goods	166	Food and clothing supplied to forces	170
Clothing	210	Foreign travel	257
Reading matter	120		
Motoring	198		

Source: Cmd. 8203.

We must remember that many of these index numbers make no allowance for changes of quality or restriction of choice (see above). Thus the total index number 182 may actually be slightly too low. The White Paper also estimates that the goods bought in 1950 cost 5 per cent. more than they would have done in 1948. Beer and tobacco prices had ceased to rise, and footwear prices were actually

[1] This was written at the end of 1951.

lower in 1950; but food, men's clothing, and foreign travel went up rather sharply, being especially affected by the devaluation of sterling in 1949.

We can say, therefore, that the price index for 1950, putting 1938 equal to 100, was $182 \times 1{\cdot}05$, or 191.[1] Allowing for changes in quality, retail prices in 1950 were thus roughly double those of before the war. This is about the same proportionate increase as for total (post-tax) personal income. But wages, even after deducting taxes, were at a level nearly $2\frac{1}{2}$ times that of before the war. So the total buying power of wages certainly seems above the 1938 level. Even if we allow for a small increase in the number of wage-earners, it appears that the average wage could buy more in 1950 than in 1938.

This comparison in fact understates the improvement in the wage-earner's lot. So far we have been discussing the increase in the prices of what the whole nation buys, which included much non-utility clothing, foreign travel, domestic services, &c. The wage-earner naturally spends his money in a different way from the higher income groups, a greater proportion going on food, rent, and fuel, for example. What we really want is an index showing the increase since 1938 in the cost of the goods bought by wage-earners.

No such official information is available.[2] Some private calculations, which can be linked to the official index of retail prices, show that to buy the goods the working classes bought in 1938 would have cost 75 per cent more in 1948 than in 1938, and 85 per cent. more in 1950.[3] So working-class prices seem to have increased by *less* than double between before the war and 1950, even if we allow for a deterioration of quality, and the increase in the purchasing

[1] Strictly, the calculation is not quite legitimate, because the first index refers to goods bought in 1948, and the second is 'weighted' by the purchases of 1950, but this discrepancy will make little difference in practice.

[2] The old 'cost-of-living index' was based on working-class purchases before the *First* World War, though this has not prevented many eminent men, even economists, citing it as evidence.

[3] Details are given in *Changes in the Cost of Living and the Distribution of Income since 1938*, by D. Seers. Corroboration is provided by Professor R. G. D. Allen's Index published in the *London and Cambridge Economic Service*. The figure shown here allows for the decline in beer strength, so as to make that comparable with the White Paper Index. Since both my own calculations and the retail prices' index are 'weighted' by working-class household expenditure as shown by the Ministry of Labour's budget inquiry in 1937–8, this link *is* legitimate.

power of wages is correspondingly greater. Total wages and average wages rose more rapidly than the prices of working-class purchases both over the war years and from 1946 to 1950.

This does not, of course, mean that all wage-earners were better off in 1950. Some, such as miners and agricultural labourers had their wages trebled, while undoubtedly many types of wage-earner were worse off, particularly when income taxes is taken into account. We also must not forget that we are dealing here with very broad averages: even within groups which were collectively better off, those with (for example) heavy smoking habits were able to buy less than they could before the war. However, wage-earners as a whole seem to have been able to buy more.

There is another conclusion we can reach: if prices of all purchases doubled, and prices of wage-earners' purchases rose by less than double, then the prices of things bought by the rest of the community must have more than doubled, which is not surprising in view of the fact that the middle and upper classes spend relatively more on luxuries. In fact the higher anybody's income was in 1938, the steeper the price rise he had probably faced since then for his customary purchases. But we saw that the incomes of the middle and upper class had on the whole not risen to as much as double the 1938 level. Landlords, professional people, those living on annuities, and all but the lowest salary-earners, faced a double squeeze: their incomes did not rise very much, but the prices of the goods they bought had risen sharply. They were therefore on average considerably worse off—*on average* again, for there are exceptions here too.

Our original conclusion, that the average consumption of the whole nation had not declined, is therefore consistent with the information available on incomes and prices. Total personal incomes (after tax) and retail prices had both almost doubled. Wage-earners as a whole in 1950 were better off, many being much better off, and social security benefits were higher: these changes offset the sharp fall in the consumption of the far smaller number of people living on high salaries and property income. A reconciliation between statistics on production, on consumption, and on incomes is possible (see note opposite).

How, then, does the feeling of poverty arise? The explanation is complex. One reason is that the minority who are definitely poorer are on the whole the most vocal section of the community;

a second is that many who are actually better off tend to compare their present position with what it might have been before the war if they had been successful; thirdly, a number repeat the opinions of the strata above them; and finally, extremists on the Right and the Left have wanted, for various reasons, to disparage such improvements as have occurred.

There has also been some confusion between poverty and two other concepts: strategic weakness and personal unhappiness. We may well be weaker economically as a nation, notably because of the chronic dollar shortage; and happiness is only remotely related to consumption levels. Such speculations lie, however, outside the scope of this essay. Economic statistics show a higher national output, and this permitted something like the average pre-war consumption in 1950, which was much more evenly distributed.

NOTE

I should point out that the estimates of production, consumption, and incomes are not entirely independent of each other, since the authors of the National Income White Paper must use the same sources for some of the items in national income by industrial contribution, by factor share and by end-use (particularly for the tertiary industries). The fact that the White Paper tables have to be mutually consistent also helps comparisons of movements in various components to check; and I have used some common series in this reconciliation. It is, however, true to say that the statistical reconciliation is far from predetermined, because the estimates of industrial production and of real consumption are largely independent; and even if it were predetermined, working it out would still show us why output and living standards had not moved parallel to one another.

PART II

THE STRUCTURE AND SITUATION OF THE BRITISH ECONOMY BY THE END OF THE WAR

CHAPTER III

BRITAIN'S INTERNATIONAL POSITION

By P. D. HENDERSON

THE external economic problems which have faced the United Kingdom since 1945 were for the most part the direct outcome of the war. Long before 1939, however, the state of the British balance of payments had given rise to anxiety, and deficits on current account had become frequent. It is therefore useful to consider the pre-war situation and the events which led up to it, in order to isolate the effects of the war, and to separate so far as possible the long-run and the more immediate problems.

Before 1914 there was no problem—or at least, there was no deficit: the current account balance was consistently favourable, and in some years the surplus was very large. The deficit with respect to merchandise trade was more than offset by a very large surplus on invisible account. Even at this time there were widespread criticisms of the traditional Free Trade policy, and a certain amount of disquiet concerning the future. There was a growing awareness of increasingly effective foreign competition, and a feeling that much of British foreign investment, and the exports with which it was associated, was tending to strengthen that competition by accelerating the pace of industrialization abroad. In a sense these fears had some basis: certainly Britain was losing ground relatively, and her share of world trade in manufactures was falling. But in absolute terms her exports continued to increase, and the current account balance remained positive. In the last great foreign investment boom, immediately before the outbreak of the First World War, the volume of exports reached a level which was not attained again until 1949, and the trades in which Britain had tradi-

tionally specialized since the early days of industrialization enjoyed a new phase of prosperity and expansion. The growth of world demand made the encroachments of foreign competition comparatively harmless.

In the inter-war period this was no longer true, at least so far as the older industries were concerned, and from 1925 onwards the balance of payments position was never fully satisfactory. During the years of expansion in world output and international trade, between 1924 and 1929, the relative stagnation of the British export trades was conspicuous. In the most chronically depressed cases—coal and cotton—the causes were fairly straightforward: the development of substitutes and increasingly severe foreign competition[1] made any return to the pre-1914 level of exports impossible. In these and perhaps in other products, Britain was gradually losing her long-established comparative advantage. Unfortunately, in the newer products, for which world demand was expanding rapidly, and which were inevitably to form an increasingly high proportion of British exports, the British performance in this period was relatively disappointing. In part this was the result of comparative inefficiency, particularly in relation to Germany and the United States, and this had already become apparent before 1914. But industry as a whole was severely handicapped by the decision to return to gold in 1925 at the pre-war parity; if a lower exchange rate had been chosen, the export industries would have suffered far less severely.

As it was, in spite of the slow and partial recovery of exports, the current account balance remained favourable, partly because the terms of trade were better than they had been in the pre-1914 decade. The weakness of the balance of payments in these years was the result of a rate of long-term foreign lending which, given the size of the current account balance, tended to be excessive. In these circumstances the exchange rate could only be maintained by more or less continuous short-term borrowing; and the United Kingdom could only hope to remain on the gold standard so long as the holders of these short-term funds saw no reason to withdraw them from London. The weakness of this position was obvious, but it could only have been effectively remedied either by some restriction of foreign lending or by a devaluation of the pound, and the authorities were unwilling to adopt either measure. Even the

[1] Partly because of heavier tariffs on British textiles.

existing current account surplus, though not large enough for comfort, was only maintained as an indirect result of unemployment which was quite unprecedented in its size and persistence. If home demand had been greater, and unemployment at pre-war levels, a serious deficit would almost certainly have resulted.

Even at the top of the boom, in 1929, the volume of British exports was more than 10 per cent. below the 1913 level; in 1931, as a result of the slump, it fell to about half the pre-war figure. In spite of this collapse the balance of merchandise trade did not greatly deteriorate, mainly because of a marked improvement in the terms of trade. The value of invisible exports, however, fell disastrously, and during 1931 the estimated current account deficit was over £100 million. The position improved as a result of the devaluation that year and the increase in tariffs; but gradually, as other countries became unable or unwilling to maintain their former parities, the competitive advantages of the new exchange rate were lost. Even in 1937, which for the world as a whole was the most prosperous year of the decade, the volume of British exports was about one-fifth lower than it had been in 1929. There was only the meagre consolation that this experience was common to most industrial countries, and that the share of the United Kingdom in world trade did not much alter. Because of the impoverishment of primary producers and the restrictive trade policies which were generally adopted in the thirties, the total volume of trade in manufactured products remained well below its 1929 level.

During the period 1931–8, the official estimates indicate that there was a current account deficit in all but two years. By modern standards these deficits were of course trivial, and given the very large holdings of foreign investments by which they could be indirectly financed, they were not in themselves very serious. However, the unemployment which resulted from the depression in the export trades was far more serious, and any attempt to deal with it by expanding home demand (had contemporary economic orthodoxy made such a policy feasible) would have led to dangerously large deficits, since the volume of imports would have increased considerably. Thus the deficits were comparatively small only because the national income remained throughout the period at unnecessarily low levels. Even as it was, the precarious balance of the thirties was only maintained with the help of a moderately

heavy tariff and a wide variety of newly devised expedients (some of them rather discreditable) designed to foster the export trades and to discourage certain imports. Moreover, the merchandise balance, once the initial advantages of devaluation and the tariff had been lost, would have worsened greatly had it not been for the persistence of exceptionally favourable terms of trade.

Even in 1938, therefore, a latent export problem existed which was similar in some respects to that which arose after the war. Full employment would have made it imperative to increase the volume of exports, and the British share of world trade, in order to maintain reserves of gold and foreign exchange and to avoid a crisis in the balance of payments. It is unlikely that such an increase could have been achieved without a substantial worsening of the terms of trade. In so far as the war brought a high level of employment, and therefore a greater potential demand for imports, its effects on the balance of payments were no different from those which would have resulted earlier from a more constructive peace-time economic policy.

In other respects, however, the war completely altered the situation. In the first place, the need for an increase in exports was made more urgent by the worsening of the external capital position. Because of heavy sales of foreign assets, and an enormous accumulation of debt in the form of sterling balances, the United Kingdom had become by 1945 the world's largest debtor. The resulting deterioration in the current account balance of invisible items was increased, particularly in the early post-war years, by government expenditure abroad (for military and relief purposes) on a far heavier scale than in any previous period of peace.

Thus when Lend-Lease was cut off at the end of the war, an enormous increase in exports—which had been reduced to about a third of their pre-war volume—became immediately necessary if the volume of imports was to be maintained without foreign assistance. Moreover, imports were already restricted by direct controls which had been imposed during the war (though this was done in order to save shipping space rather than foreign exchange), and further reductions could not have been made without serious hardship and the risk of industrial dislocation because of raw material shortages. At the same time, the ability of the United Kingdom to export on a large scale had been seriously—though temporarily—impaired. The rate at which exports could be

increased was limited, since industries had been geared to war-time demands and an elaborate process of reconversion was needed, and also because of the very strong pressure of demand in the home market which (in the absence of ruthlessly severe deflationary measures) was an inevitable sequel of the war.

The war had in fact created a situation in which orthodox remedies for a deficit in the balance of payments appeared to be at worst irrelevant and at best hopelessly unpalatable. The textbooks tell us what can be done when a comparatively small disturbance occurs because of a change in demand for exports or imports; but there is no recognized expedient for a country which is suddenly confronted, almost overnight, with a huge disequilibrium which is not the result of ordinary economic forces, and whose whole economic system has been completely disrupted. Devaluation, which is one obvious course of action for a country which wishes to improve its balance of payments while maintaining full employment, is an appropriate way of offsetting a gradual decline in competitive power when the demand for the country's exports and imports is likely to be responsive to a change in their relative prices. But the United Kingdom's difficulties were not the result of high prices, and in the situation immediately after the war the elasticities of demand for exports and imports were obviously low; it can even be argued that during this period the current account balance would have been less unfavourable if the exchange rate had been higher. As for deflationary policies at home, they would have had to be exceptionally drastic for any sort of external balance to be achieved. It is conceivable that a combination of such policies with still more drastic import restrictions might have brought a solution of the external problem without further borrowing; but the immediate cost in terms of lower consumption standards and unemployment would have been so heavy that probably no government would have dared to impose it. In these conditions, the case for accepting a foreign loan, which would take the place of Lend-Lease during the reconversion period, until the export industries had got into their stride, was clearly very strong.[1]

[1] This is not meant to imply approval of the policies which were actually followed. One could argue that given the conditions attached to the American Loan, it should not have been accepted; or that the Government failed to take sufficiently firm action to reduce inflationary pressure at home with the result that potential exports went into the home market. Questions such as these lie outside the scope of this essay.

It was made even stronger by the fact that a general increase in exports (or reduction in imports), large enough to eliminate the current account deficit, would not have solved the problem since there would still have been a chronic shortage of dollars. The very rapid war-time growth of output in the Western Hemisphere, and particularly in the United States, together with the economic dislocation of many European and Asiatic countries, caused a profound change in the pattern of world trade. The decline of production in Europe and in other areas which were badly affected by the war meant that everywhere the dependence on the United States for imports both of primary and of manufactured goods increased greatly. In the case of the United Kingdom, the proportion of imports coming from the Western Hemisphere, which had been 32 per cent. in 1938, had by 1947 risen to 46 per cent. This was due not to a failure of home output to increase, but to the inability of many pre-war suppliers to provide the imports that were needed; the increase in imports from the dollar area therefore consisted chiefly of food and raw materials. Before the war the United Kingdom's deficit with the dollar area had been indirectly met from her export surplus with other (mainly sterling area) countries, which in turn had a surplus with the United States from the sale of primary products; but now this was no longer possible. The other sterling area countries had become more dependent on the United States, while their dollar exports had diminished in volume, so that their pre-war dollar surplus was actually turned into a deficit which increased the strain on the gold and dollar reserves. If by a supreme effort at the end of the war the United Kingdom had succeeded in turning the current account deficit into a surplus, the dollar shortage would still have remained. The deficit with the dollar area could not have been offset by the surplus with the rest of the world; the latter would have been matched by a reduction in sterling debts and an accumulation of virtually useless inconvertible currencies. (To some extent this actually occurred.) It might appear that the position would have been easier if there had been general convertibility of all currencies, and a restoration of free multilateral trade, but in fact this is very doubtful. The disastrous experience of 1947 showed that sterling could not by itself be made convertible, so long as the sterling balances existed, until complete confidence in its future value and in the soundness of the British balance of payments had been restored. And while the dollar

shortage remained, any wider attempt to make European currencies convertible would almost certainly have been premature.

The result of the war was therefore a crisis in the British balance of payments, for which the surest immediate remedy was large dollar credits. In one respect, however, the war brought an improvement in Britain's situation since it reduced almost to paralysis two of her main industrial competitors, Germany and Japan. In the almost complete absence of competition from these sources, the task of increasing the volume of exports in the five years after the end of the war was rendered far easier and less painful. From a purely insular point of view it was fortunate that the temporary difficulties which the war created were partly compensated in this way during the early stages of recovery.

It is clear that in so far as the German and Japanese economies are restored to a more normal basis, the difficulties of maintaining an adequate volume of British exports will increase. One obvious result of the growth of competition in manufactured products will be a tendency for the terms of trade to shift still farther away against industrial countries and in favour of primary producers.[1] Since the end of the war the adverse movement of the terms of trade has been by far the most serious threat to the stability of the British balance of payments. Some idea of the quantitative importance of this factor may be given by considering the value of merchandise trade in 1950. During 1950 the value (c.i.f.) of retained merchandise imports was £2,518 million while the value (f.o.b.) of exports was £2,170 million. If, however, export prices had risen above their 1938 levels by as much as import prices had risen, the value of exports would have been about £2,720 million. The United Kingdom has been in a position similar to that of Alice in Looking-Glass Land: it has been necessary to increase continually the volume of exports in order to avoid an actual worsening of the balance of payments. It is therefore particularly ominous that these developments have taken place in a period when British goods were relatively shielded from competition, and in which the system of bulk purchase had certainly some effect in slowing down the rise in import prices.

This change in the terms of trade has probably little direct connexion with the war. In so far as agricultural and extractive industries are less easily restored to full production after a period

[1] This tendency may of course be offset by other factors.

of disruption, the effects of the war did tend to increase the prices of food and raw materials more than those of manufactured products. But to a large extent the change is independent of the war, and may well reflect a long-run trend which is unlikely to be reversed for a considerable time. The improvement in the terms of trade of industrial countries which took place between 1870 and 1900 was the result of an unprecedented expansion of the output of primary products in newly developed territories. In the inter-war period the continued improvement was partly due to the severity of the slump and the relative inelasticity of supply of primary products. Since 1945 the situation has been quite different from either of these: the output of food products, and still more that of raw materials, has lagged considerably behind the increase in industrial production, so that the relative prices of manufactured products have in general been steadily depressed. Provided that serious depression is avoided, and the rate of increase in industrial productivity continues to be high (and both are fairly plausible assumptions), this tendency is likely to continue.[1]

From the British point of view this will cause (as it has already caused) a loss of real income and a lower standard of living than would otherwise be possible. Provided, however, that productivity continues to increase at a satisfactory rate, even a fairly rapid and consistent deterioration in the terms of trade would not necessarily lead to an actual fall in the standard of living.[2] The important question is whether, even with a long-run relative fall in export prices, the necessary quantity of exports will be maintained. If it were not maintained, a far more serious fall in the standard of living could hardly be avoided.

By pre-war standards this necessary quantity is very large. At the end of the war it was calculated that for the United Kingdom to buy the volume of imports which would be needed, exports would have to be increased in volume above their 1938 level by about 75 per cent. This calculation allowed for the loss of interest and

[1] Even in 1950 the terms of trade were a good deal more favourable than in any year before the First World War.

[2] Suppose, for example, that import prices rise by 10 per cent. each year, export prices remaining constant—a very pessimistic assumption for the long run—and that imports represent 25 per cent. of national expenditure. Then the increase in exports which is necessary to maintain the volume of imports while avoiding a deterioration in the balance of trade is equal to 2½ per cent. of the national product. An annual rate of increase in real output of 2½ per cent. is certainly not out of the question.

dividend payments from abroad, the gradual repayment of the debts which had been created during and immediately after the war, and for some increase in the volume of imports (as compared with 1938) as a result of a higher real national income. It is now clear that because of the worsening of the terms of trade, an increase of 75 per cent. cannot be regarded as adequate.[1] If we are to avoid insolvency and ensure a satisfactory level of imports, the volume of exports will probably have to be at least double what it was in 1938, and the United Kingdom's share in world trade will have to remain considerably greater than it was before the war.

If this is to be achieved it will be necessary to bring about an even greater expansion in the British share of the world market for producers' goods. From the end of the First World War the proportion of these goods to total British exports has risen steadily at the expense of coal and textiles, as the accompanying table shows.

The Changing Composition of United Kingdom Exports

	Percentages of total value			
	1913	*1929*	*1938*	*1950*
Coal	10·2	7·2	8·6	2·8
Textiles and clothing	37·8	33·3	21·5	19·1
Metal and engineering products	26·7	29·2	38·0	50·3
Other manufactured goods	13·8	15·5	17·4	16·8
Other goods	11·5	14·8	14·5	11·0
TOTAL	100·0	100·0	100·0	100·0

It is true that in the period 1945–50 coal and textiles would have been far greater if output had increased more rapidly, so that the fall in their share was not the result of a further loss of foreign markets to competitors. However, the sellers' market in textiles has been only a passing phase, which can scarcely outlive the revival of Japanese production; and even if the overseas demand for British coal remains high, supply difficulties are likely to per-

[1] In 1950 the United Kingdom had a current account surplus of over £200 million while the volume of exports was about 75 per cent. greater than in 1938. However, it must be remembered that in 1950 the annual payments on the U.S. and Canadian loans had not yet begun, and that the volume of imports was about 10 per cent. smaller than in 1938 although the real national income was substantially larger. Moreover, it would probably be optimistic to expect the terms of trade over the next ten years or so to be as relatively favourable as they were in 1950.

sist for some time. The future of the United Kingdom as an exporting nation must rest primarily on the heavy industries.

This means that the prosperity of the United Kingdom is more than ever dependent on the state of world demand. The degree of dependence is in any case very great. The historical evidence suggests that even in previous slumps the British balance of payments has usually suffered. In any future slump or recession it will suffer very much more. The main reason for this is that the effects of a fall in exports on employment and effective demand at home will be much smaller, since whatever government is in power is virtually certain to try to maintain employment. In so far as the full employment policy were successful, the demand for imports would remain high, so that unless special measures were taken the state of the balance of payments might soon become critical. Moreover, in any world slump the goods most affected by falling demand would be precisely those in which the United Kingdom specializes.[1] The most favourable condition for the British balance of payments is, therefore, a high and sustained rate of investment in the world as a whole. Failing this, our position could only be saved by an effective international agreement by which foreign exchange would be made available in a slump to countries whose exports had suffered but who maintained home demand.[2] Without such an agreement it would be necessary to accumulate excess reserves during a boom in order to keep up imports in the succeeding slump, and such a policy would be both difficult and uncertain. There is no doubt that if in the future world demand is highly unstable, we shall, as a nation, be less prosperous, and far more insecure.

[1] The more so, because quite a high proportion of our exports of consumers' goods consists of luxuries and semi-luxuries for which the income elasticity of demand is generally high.

[2] One such scheme is outlined in a recent United Nations report, *National and International Measures for Full Employment*.

CHAPTER IV

THE STRUCTURE OF THE BRITISH ECONOMY

By C. N. WARD-PERKINS

IT is not possible to indicate in more than broadest outline the structure of the British economy at the end of the Second World War such as will serve as an introduction to the more detailed studies that follow. Even if space permitted, much of the information that a more systematic survey would require does not exist, nor would a detailed analysis of the situation in 1945 be particularly appropriate or significant. The economy was then distorted by the necessities of war production. Even in 1951, it is difficult to assess how far any war-time distortion has effected a permanent change in the economic structure. Some features appear to have had remarkably little lasting effect, such as the war-time concentration of the textile and clothing industries; while others, such as the expansion of the engineering industry, the contraction of the distributive trades, and absorption of more women into manufacturing industry, appear to have had more lasting consequences. Even these latter, however, have been controlled largely by the nature of post-war developments.

The last comprehensive survey of a large section of the economy for which complete published information exists was the Board of Trade's 1935 Census of Production which covered about half of the industrial population.[1] The 1931 Census of Population provides the last complete picture of occupational distribution;[2] however, figures for employment of insured workers collected by the Ministry of Labour provide much valuable supplementary material. This is made readily available in the *Annual Abstracts of Statistics* and, since January 1946, in the *Monthly Digest of Statistics*.[3] Yet to the investigator the subject remains tantalizingly obscure, and available material is often not exactly comparable, thus providing a trap for the unwary. Fuller elucidation must await the publica-

[1] Only incomplete figures exist for the 1948 census of production.
[2] Only the preliminary figures of the 1951 census are at present available.
[3] Prepared by the Central Statistical Office.

tion of the more recent censuses especially in the field of distribution.

There exists no unique classification of industrial structure suitable for all purposes; the raw material must be reassembled in a form suitable for the particular problem that is under consideration. All industrial classifications are more or less arbitrary, and the Board of Trade's groupings no less than any other;[1] some groups such as textiles are far more homogeneous than others, though even here the division with clothing must at times be arbitrary. Even the 302 trades and sub-trades used by the Board of Trade cannot be treated as homogeneous. For example, the lace industry falls into five further distinct groups with different industrial structures, backgrounds, and problems.[2] The metal-making and metal-using groups cover in particular an extraordinary diversity of trades and types of industrial enterprise, the large integrated concerns such as Stewart and Lloyds and Metro-Vickers and the small and long-established trades of Birmingham and Sheffield.

This introductory survey will consider first the structure of industry as indicated by manpower and output figures, second the breakdown of the economy between home and overseas trade, consumers' goods and investment, and its regional distribution; and finally the organization of industry, with a short discussion on the size and control of firms.

Structure of the economy

Table 1 sets out the position of the economy in June 1939, 1945, 1946, and 1950 as revealed by the distribution of the working population. 1946 has been chosen as being towards the end of the first phase of reconversion, before the impact of the post-war crises: it should be noted, however, that demobilization was going on throughout that year. The industrial figures are shown as percentages of total employment in industry.

If compared with other countries, the special features of the United Kingdom economy appear to be the very low percentage engaged in agriculture (indeed, the lowest figure recorded by Colin

[1] See P. Sargent Florence, *Investment, Location and Size of Plant* (1948), chap. 1 for a discussion of the difficulties of finding a satisfactory method of industrial classification.

[2] Board of Trade *Working Party Report on Lace*. 1947.

Clark) and the high percentage for those engaged in tertiary or service industries, where, according to Clark, only the United States has a higher figure.[1] The low percentage for primary production indicates the extent to which a developed economy can, by exploiting the division of labour, raise itself above subsistence level. India in 1931 and China in 1921 had 64 per cent. and 70 per cent. respectively of the working population on the land. The significant differences between the United Kingdom and the United States economies appear to be the percentages engaged in agriculture 7 per cent. and 19 per cent. respectively, in manufacturing industry 35 per cent. and 25 per cent., and for all secondary occupations which include in addition to manufacturing, mining, and construction 47 per cent. as compared with 32 per cent.[2]

The war does not appear to have altered the balance between these major industrial groupings significantly; there was a slight recovery in agriculture which represents a reversal of the historical trend, but the contraction in the distributive trades had been more than balanced by the expansion in other tertiary activities, notably government services. Private domestic service had shown the most significant decline from over 6 per cent. of the occupied population to 3·5 per cent.[3]

TABLE I

Distribution of Total Manpower—Great Britain at June 1939, 1945, 1946, 1950

(*Thousands*)

	1939	*1945*	*1946*	*1950*
Total working population	19,750	21,649	20,523	23,068
Males	14,656	14,881	14,628	15,832
Females	5,094	6,768	5,885	7,236
Total in armed forces, on leave, and civil defence	560	5,257	2,820	697
Unemployed	1,270	103	376	274
Total in industry	17,920	16,289	17,327	22,097

Sources: *Annual Abstract of Statistics*, No. 84 (1935–46), Table 128, and *Monthly Digest of Statistics* for 1950.

[1] See Colin Clark, *Conditions of Economic Progress*, and League of Nations, *Industrialization and Trade*, p. 27.

[2] U.K. figures for 1939; U.S. figures for 1940.

[3] *Economic Survey for 1947*.

Percentage in Various Trade Groups of Total in Industry

	1939	*1945*	*1946*	*1950**
		Employment		
Agriculture and fishing	5·3	6·4	6·2	5·4
Mining	4·9	4·8	5·0	3·9
Metals, engineering, vehicles, &c.	15·7	23·7	18·9	
Chemicals, oils	1·6	2·7	2·0	
Textiles	5·6	3·9	4·2	
Clothing, boot, and shoe	4·2	3·0	3·4	38·4
Food, drink, and tobacco	3·6	3·2	3·2	
Cement, bricks, pottery	1·5	1·0	1·3	
Leather, wood, paper	4·8	3·3	3·7	
Other manufactures	1·0	0·8	1·0	
Building and civil engineering	7·3	4·9	6·8	6·5
Transport and shipping	6·9	7·7	8·0	8·2
Gas, water, and electricity supply	1·4	1·2	1·4	1·6
Distributive trades	16·1	11·9	12·5	11·8
Commerce, finance	2·3	1·6	1·8	—
National and local government	7·7	11·8	11·6	6·4
Miscellaneous services†	10·1	8·2	9·0	17·8
Primary industries‡	5·3	—	6·2	5·4
Secondary industries	50·1	—	48·6	48·8
Tertiary industries	44·6	—	45·2	45·8
Registered unemployed	7·1	—	2·2	1·3

* The method of setting out the distribution of total manpower was altered in 1948. The numbers included are larger because private indoor domestic servants and those of pensionable age, who are gainfully employed, are now included and part-time workers are counted as full units instead of half units as formerly. Also the classification of the various groups has altered. Notably national and local government has become a smaller group, public administration, while miscellaneous services has grown to include professional, financial, and miscellaneous services.

† Does not include indoor domestic servants and thus understates tertiary figures.

‡ Using Colin Clark's definition.

Manpower figures do not exactly express the importance of an industry in the national economy. Table 2A gives the net output per head of various industries, that for all factory trades being expressed as 100. These figures are derived from the 1935 Census of Production.

Low output-per-head figures may be due to a high preponderance of unskilled and/or women workers, or low capitalization.

Table 2B shows the proportion of gross national product that was contributed by various industrial groups for 1950. It is derived

from the National Income White Paper, Cmd. 8203. It is unfortunately not exactly comparable with the census material but serves to give a broad indication of the importance of various sectors within the economy.

TABLE 2A

Net Output for Principal Industrial Groups 1935, and Net Output per Head (Factory Trades = 100)

	£ *million*	*Per-centage*	*Net output per head*
All trades	1,625	100	97
Factory trades: Total	1,180	73	100
Iron and steel	115	7	99
Engineering, &c.	250	16	100
Non-ferrous metals	30	2	108
Textiles	155	10	71
Leather	10	1	84
Clothing	80	5	38
Food, drink, tobacco	200	12	154
Chemicals	90	5	206
Paper, printing, and stationery	110	7	122
Timber	35	2	68
Clay and building materials	55	3	97
Miscellaneous	45	3	107
Non-factory trades: Total	445	27	87
Building and contracting	100	6	62
Mines and quarrying	135	8	77
Public utility services	135	12	226
Governmental departments	20	1	105

Source: *Annual Abstract*, No. 84, Table 146.

Table 1 reveals the expansion between 1939 and 1946 of the engineering industry, largely at the expense of textile, clothing, building, and other consumer good industries, though by 1946 much of the war-time distortion had been rectified. These figures do not necessarily indicate an actual industrial migration. Building, textiles, &c., lost much of their strength to the armed forces, while the engineering group tapped the newly mobilized women's labour force that had increased by over two million between 1939 and 1943. Details as to the extent to which the war economy led individual members of the industrial population to change their jobs are not available.

TABLE 2B

Distribution of the Gross Domestic Product expressed as Percentage of Total

Agriculture	5·1
Mining	3·3
Manufacturing	37·3
of which:	
Bricks, pottery, and glass	1·5
Chemicals and allied trades	2·3
Metal manufactures	12·2
Engineering, shipbuilding, and electrical goods	8·2
Vehicles	4·2
Other metal goods	2·2
Textiles	4·9
Clothing	2·3
Food, drink, and tobacco	3·7
Wood and cork manufactures	1·2
Paper and printing	2·4
Other manufacturing	2·0
Building and contracting	5·3
Gas, electricity, and water	2·1
Transport and communications	8·1
Distributive trades	13·2
Other services	10·4
Ownership of dwelling houses	3·7
Services of public authorities	10·3
Domestic service to households	0·8
Services to private non-profit making bodies	0·4

Note: the percentages for various branches of manufacturing industry are derived from consideration of wages and profits only as Cmd. 8203 does not provide the complete breakdown. Thus any industry with heavy rent, salary, or depreciation expenditure will appear with too low a percentage.

Source: Cmd. 8203, Tables 5, 7, and 8.

Breakdown of the economy

(*a*) Estimates are available for the distribution of manpower as between armed forces and supplies, those engaged on orders for export, and those engaged for the home market, with the latter further subdivided between those providing investment goods,

consumption goods, general purpose goods, and services and public services.[1] These are set out in Table 3. It is doubtful how useful these figures are; they raise such problems as how much of the public transport system is engaged on the carriage of export goods or what proportion of the public services is similarly engaged (e.g. the Export Promotion Department of the Board of Trade). The value of the exports probably gives a better picture of the extent to which the economy is geared to international trade.

TABLE 3

Total Employment in Great Britain at June in each Year

	1939		*1945*		*1946*	
	000's	%	*000's*	%	*000's*	%
Total in employment	18,480	100	21,510	100	19,450	100
Armed forces and supplies for armed forces	1,750	9 5	8,920	41·5	2,750	14·4
of which:						
Armed forces	480	2·7	5,090	23 6	2,030	10·3
Equipment and supplies	1,270	6·8	3,830	17·9	715	4·1
Employed on orders for export	1,150	6·3	420	1·8	1,320	6·9
Employed on orders for the home market: Total	14,115	76·3	10,730	47·3	13,280	67·7
of which:						
Investment goods	3,055	16·6	1,670	7·8	3,350	16·9
Consumers' goods	8,970	43·4	6,290	29·3	7,600	39·1
General purpose goods and services	2,090	11·3	2,170	10·2	2,330	11·7
Public services	1,465	7·9	2,030	9·4	2,100	11·0

Source: *Annual Abstract*, No. 84, Table 129.

(*b*) Table 4 shows how the war years saw a revival of the older industrial areas of the north and west, largely at the expense of

TABLE 4

Distribution of Manufacturing Population by Areas Expressed as Percentage of Total

	London and South-east	*Eastern*	*Southern*	*South-western*	*Midland*	*North Midland*	*East and West Ridings*	*North-western*	*Northern*	*Scotland*	*Wales*
June 1939	22·1	4·0	3·2	4·0	14·1	8·0	11·0	18·0	4·2	9·2	2·2
June 1946	20·3	4·3	3·4	4·1	12·5	7·1	11·0	19·0	5·1	10·0	3·2

Source: *Monthly Digest of Statistics*.

[1] *Annual Abstract*, No. 84, Table 129.

London and the Midlands; here again it does not necessarily indicate a large migration of workers, since the increased numbers in these areas included those who were unemployed in 1939 or women labour drawn into industry for the first time. The problems of industrial location are discussed more fully in Chapter XII.

Organization of industry

Any survey of the structure of the economy must include some discussion as to the nature and dispersal of industrial control, but in this country the information is sadly and surprisingly deficient. The 1935 Census of Production gives an incomplete picture of part of the economy before the Second World War; the Census of Distribution will chart a little known area. Even with the best raw material, the weight of numbers alone deters the investigator. The Census of Production gives 250,000 firms in 'productive' industries. In 1940 there were over 700,000 retail outlets for the sale of foodstuffs alone, and nearly 600,000 in 1946,[1] though of course many of these were branches. Estimates for the total number of retail businesses made before the war were in the neighbourhood of 750,000[2] with a wide margin of difference between estimates. On 31 December 1938 there were 160,000 joint stock companies on the Register of the Registrar of Joint Stock Companies, though some of these operated outside the United Kingdom. Our attention will be confined to the census material, where alone any accuracy can be hoped for.

Table 5 shows the distribution of manpower between the various industrial groups, distributed between firms of certain sizes, and also the total number of firms in each of these sizes. As will be explained later the definition of 'Firm' is special and restricted. At first sight it appears significant that over 50 per cent. of the labour force was working in firms of less than 500 strength. The variation as between the various groupings is noteworthy. Mining (and this means virtually coal-mining) was the large-scale industry *par excellence*; nearly 90 per cent. of its labour was employed in firms of over 500 manpower; this may in part explain the problems of maintain-

[1] *Annual Abstract*, No. 84, Table 225.

[2] See H. Smith, *Retail Distribution* (1948); L. E. Neal, *Retailing and the Public* (1933).

TABLE 5

Total Number of Firms and Distribution of Employment among Firms of certain Sizes as Percentage of Total Employment in 1935

Employing	1–10	11–99	100–499	500–1,499	1,500+	Total	Percentage in each group					Total numbers employed 000's
	Nos. in each group						1–10	11–99	100–499	500–1,499	1,500+	
Manufacturing industry	*132,938*	*31,214*	*8,299*	*1,291*	*360*	*173,502*	*9*	*20*	*31*	*18*	*22*	*5,694*
Textiles	2,745	3,094	2,069	337	56	8,301	2	13	43	24	18	1,069
Leather	1,987	662	123	3	—	2,775	12	43	41	4	—	57
Clothing	30,287	5,041	1,032	133	15	36,499	17	27	32	16	8	644
Iron and steel	10,369	2,440	827	130	49	13,815	6	16	30	10	29	571
Engineering	24,074	4,307	1,141	274	125	29,921	9	12	21	19	39	1,210
Non-ferrous metals	2,989	1,032	239	34	—	4,294	9	28	37	26	—	134
Food, drink, and tobacco	27,947	4,370	706	120	42	33,185	18	22	23	16	21	633
Chemicals	2,047	1,164	297	47	18	3,573	6	20	29	17	28	205·6
Rubber, &c.	2,961	1,132	309	36	16	4,454	7	21	33	15	24	196·3
Paper and printing	6,850	3,302	672	97	26	10,947	7	26	32	17	18	442·6
Timber and woodworking	16,515	2,912	397	17	4	19,845	26	38	28	5	3	263
Clay and building materials	3,643	1,758	487	63	9	5,960	7	25	38	18	12	167
Building and contracting	67,450	7,716	868	63	15	76,112	34	33	21	7	5	772
Mining	2,125	1,230	270	194	161	3,980	1	5	7	21	66	855·9
Public utilities	2,238	1,270	490	151	55	4,204	1	7	16	19	57	708·4
All industries	104,151	41,430	9,927	1,699	591	257,798	10	18	25	17	30	8,029·8

Source: Census of Production 1935.

ing good labour relations within this industry. The small scale firms are clothing, woodworking, building, and food, drink, and tobacco groups.

The essentially medium-sized firm is most typical of the textile and building materials group. The typical firm would become more apparent if the industrial groups were broken down to their constituent industries; thus in the food, drink, and tobacco group the existence of large firms in the tobacco industry and in certain sections of the food and drink industries (notably biscuit, chocolate and cocoa manufacture, margarine, sugar, and spirit distilling) distorts the picture for the rest of the group. Similarly for the engineering group there are sections where the large firm predominates such as in vehicle production and electrical engineering, and sections where the small firm is still typical, as in the Birmingham and Sheffield trades. Sargent Florence has paid considerable attention to the possibility of classifying industries as having a typical size of plant (or establishment, to use the census terminology); he presents a convincing case for classifying 70 of the 131 trades as classified by the Board of Trade for the 1930 census as small, smallish, medium, largish, and large plant industries with a further 17 with a bias towards the smaller or larger size. Of the other industries, in 20 there is insufficient evidence to come to a definite conclusion, while in only 13 industries is there no bias towards any size of group. No detailed study is available of the size of firms within each industry and as the census definition of 'Firm' is a restricted one and does not correspond with a single unit of industrial control, such a study would not be very profitable.

Indeed, the census figures underemphasize the degree to which production is concentrated in the hands of large units. In the final report of the census it had been intended to provide more information on this aspect based on additional information that the Board of Trade had obtained for the purpose. Some of this information and the conclusions based upon it are available in a paper by H. Leak and A. Maizels.[1] The original census definition of a firm was such that the particulars for a 'Firm' would exclude establishments trading under the same name in a different trade group, while establishments operating under a different trading name, but owned or controlled by the same parent company were treated as

[1] Later reissued as a separate pamphlet, *Journal of Royal Statistical Society*, Feb. 1945.

separate firms even if operating within the same trade. The Board of Trade made further investigations based on new definitions of firms 'as the aggregate of all establishments operating under the same trading name, irrespective of the nature of output', while the concept of a business unit was introduced 'as the aggregate firms owned or controlled by a single parent company, employing more than 500 persons'. Control was defined strictly as in the 1929 Companies Act, that is, as being equivalent to ownership of over half the capital (or voting power). Thus it will be seen that the degree of concentration that was revealed is the minimum, since it does not take into account such forms of combination or co-ordinated working as virtual control through the ownership of a large block of shares, common action through trade associations, cartel agreements, interlocking directorates, or informal working agreements.

The results obtained by Leak and Maizels are set out in Table 6. Here the units have been divided in two ways; first into single or connected cases. A single case is where the business unit consists of one firm only; the connected case represents a combination of firms, the holding company being a special type of connected case where the unit of control is not itself employed in production. The second division is between units (whether single or connected cases) that operate solely within one trade or those that operate in several trades.

The table reveals that 55 per cent. of the employed and 58 per cent. of the net output of all production covered by the census figures was in the hands of units employing more than 500 workers. The inclusion of the firms employing 10 and under does not reduce these figures below 50 per cent. Connected cases in one trade (which include the purely horizontal type of concern) were relatively unimportant. Within the one-trade class the single cases were far the most important and provided a quarter of the total net output and employment. But it was units operating in more than one trade that accounted for 59·5 per cent. of employment, and though here the connected cases were less numerous than the single cases, they provided 60 per cent. of the employment and over 70 per cent. of the output in this group. This group covers the vertical concerns besides more diffuse combinations (such as overspill of entrepreneurial energy and business capital into cognate industries of which Lever Bros. is such a good example).

How far do the units predominate in each particular trade? This is a step towards the study of the size of 'Firms' in individual industries. Figures given by Leak and Maizels showing the proportion of total employed of the industry that is given by 'units' include railways 100 per cent., coal-mining 94 per cent., aircraft

TABLE 6

Summary Particulars for Units Employing 500 Persons or More

Type of Unit	*No. of units*	*Net output £000*	*No. of persons*	*Per cent. of all units*	*Net output per person*
Single cases:					
(*a*) In one trade . .	948	227,572	1,060,168	26·5	215
(*b*) In more than one trade . . .	479	231,877	1,094,999	27·5	215
Connected cases:					
(*c*) In one trade. .	108	41,333	169,943	4	243
(*d*) In more than one trade . . .	352	332,893	1,267,506	32	262
(*e*) Holding companies	72	97,503		10	258
All units (not holding companies):					
(*a*)+(*c*) in one trade only . . .	1,056			30·5	
(*b*)+(*d*) in more than one trade . .	831			59·5	
Total (*a*)+(*b*)+(*c*)+(*d*)+(*e*) . . .	1,959	930,978	3,970,559	100	234
Other firms . . .	—	672,329	3,232,498	—	208
Total all firms . .		1,603,307	7,203,057	—	222
Units as per cent. of all firms . . .		58	55		

91 per cent., tobacco 80 per cent., cotton spinning 68 per cent., woollen and worsted 46 per cent., cotton weaving 37 per cent., building and contracting 18 per cent., and furniture 15 per cent.[1]

As an index of concentration Leak and Maizels used the aggregate employment of the three largest firms within the trade and subdivision and compared this with the total for all firms.[2] Of the main trades the most concentrated were manufactured fuel and wallpaper; while showing concentrations between 80–90 per cent. were match trades, railway companies, petroleum, explosives and

[1] See Leak and Maizels, Table VII.

[2] See Leak and Maizels, Appendix III and Table XII.

firework trades. Very low concentrations were obtained in building and contracting (only 2 per cent.), timber, cotton weaving, woollen waste, and furniture. If subdivisions of trades are considered, even more concentration is revealed; thus while the mechanical engineering trade is only 8 per cent. concentrated, the figure for the sewing and boot and shoe machinery section was 93 per cent. (and these subdivisions had been amalgamated in the census, since each section was in fact dominated by one firm). Highly concentrated sub-trades include (in addition to those already listed as trades) condensed milk (94 per cent.), nickel, zinc, bicycles, sugar, dyes, gramophones (between 80 per cent. and 90 per cent.), and rayon, rubber tyres, refrigerating machinery, margarine, and photography apparatus (between 70 per cent. and 80 per cent.). In thirty-five trades, the degree of concentration was over 70 per cent. If the figures are aggregated for each trade group, then the percentage of employment in the three largest firms in the 249 trades considered was highest for chemical trades (48 per cent.) and lowest for building and contracting trades (4 per cent.) while for all industry it was 26 per cent.[1] Seven units were among the three largest in more than three trades including Dorman Long and Co., Vickers in four trades, Lever Bros. and Imperial Chemicals in seven trades, and the C.W.S. in twelve trades.

If individual products are considered, naturally even higher degrees of concentration are encountered, for firms tend to specialize within their own trades; thus 99 per cent. of gramophone records and 93 per cent. of photographic films were produced by the three largest firms. A number of commodities were listed which vary in concentration from lithopone, 100 per cent., to building bricks, 18 per cent., and some seventy commodities are given whose production is wholly concentrated in one or two firms.

Finally, there is an attempt to analyse the degree of inter-connexion between different industries. Six major groupings were considered. Coal and steel, engineering, chemicals, public utilities and building, boxes, paper and printing, textiles and clothing group. The index used to demonstrate the degree of interconnexion between industries was the proportion of total employment in each industry that was accounted for by large units engaged in both. If the coal-mining and metalliferous mining industries are considered, 8 per cent. of total number of coal-miners and 49 per cent.

[1] See Leak and Maizels, Table VIII.

of the metal-ore miners were employed in large firms operating coal-mines and iron-ore mines. Again, 74 per cent. of the employment in the tube-making industry was in firms who also were engaged in mechanical engineering.[1]

As for individual industries, there is, of course, a wealth of material; of prime importance are the reports of the seventeen working parties issued in 1946 to 1948, and it is a matter of regret that these admirable surveys were limited to those industries which came within the jurisdiction of the Board of Trade. Five were in the textile groups, cotton, wool, jute, hosiery, and lace; four within the clothing industry, heavy, light, and rubber-proofed clothing, and boots and shoes; seven were essentially domestic consumer goods, glassware, cutlery, jewellery and silverware, carpets, linoleum, furniture, and pottery; and finally a raw material, china clay. Not that all working party reports are equally useful for the study of industrial structure. The wool and cotton reports provide an excellent background material, while that for lace is a model of careful and informative presentation. Some working parties either paid singularly little attention to the structure of the industry they were examining or failed to publicize the material they had studied. On the whole the industries surveyed were light, with small- or medium-scale firms predominating, and were not highly concentrated. They are probably more competitive than the average run of British industries (the notable exception to this being linoleum: here almost with complacency the elimination of price competition is recorded). Yet any reading even in this restricted field reveals an extraordinary diversity of structure even within what to the outsider might appear to be a homogeneous industry, and also the surprising vitality of small firms especially those working in a restricted or specialized field. The example of lace has already been quoted. There appears little evidence that there has been in these industries any recent trend towards concentration either vertically or horizontally, and only the Jute and Cotton Reports, the latter with a strong minority dissent, came out in favour of a policy of encouraging such a process.

Yet the need for more co-operation within industries was recognized and usually found expression in the recommendation that a Development Council should be set up.

[1] Notes on these interconnexions are shown in the chart in Leak and Maizels's paper.

The treatment of industrial structure in this chapter has been entirely numerical and quantitative. Even with this restricted approach we have seen that there is a very great variation between different industries with respect to the typical size of firm in the industry, the financial interconnexions between firms, the productivity of labour in the industry, and so on. In particular we have made considerable use of the work of Leak and Maizels, who have made estimates of what they call the degree of industrial concentration. But the term 'concentration' is frequently used by economists to mean something wider than the sense in which Leak and Maizels use it. For example, two industries might have the same index of concentration, i.e. in both industries the three largest firms produced the same proportion of total output, and yet the degree of competition or independence of firms in the two industries might differ widely. For example, before nationalization the firms in the iron and steel industry were legally and financially independent (in the Leak and Maizels sense), but were nevertheless and remain highly organized under the British Iron and Steel Federation. The industry is split up into eleven conferences (or product sections) each of which elects members to the council of the Federation on the basis of the net value of output of each of the conferences. In addition the executive committee, under a full-time chairman, is responsible to the council. The Federation undertakes quite a number of important activities on behalf of the whole industry, e.g. the development of research and the central purchase of imported steel and scrap. It has also been responsible for fixing steel prices throughout the industry, though during and since the war the price policy of the Federation has been under the supervision of the Government. In other industries one will find hardly any effective co-ordination of policy or centrally organized activities. Betwixt and between there are industries such as cotton where production is highly specialized and where the independence of firms is still very marked, but where certain common policies and activities have been developed in a rather less formal way under the statutory Cotton Board.

These differences in industrial organization cannot be assessed quantitatively and yet are very important in understanding their working. The reader should bear in mind that the many figures we have given still by no means describe the full complexity of British industrial organization.

CHAPTER V

TRADE ASSOCIATIONS

By N. H. LEYLAND

THE term Trade Association is a wide one. Since few associations are alike either in their organization or their objects, it is very difficult to define the term in a way that is not so vague as to be meaningless. Broadly speaking, the trade association is a properly constituted body of employers having a constitution, rules, and officers, designed to further the interests of their trade. This objective is clearly open to wide interpretation.

Though the growth in the number of trade associations has been most spectacular in recent years, they, or organizations similar to them, are as old as industry. The Committee on Trusts of 1919 points out that 'there is at the present time in every important branch of industry in the United Kingdom, an increasing tendency to the formation of Trade Associations and combinations having for their purpose the restriction of competition and the control of prices'. While formation was extremely rapid throughout the inter-war years, the peak was in 1919–20, for the First World War provided an important stimulus to trade associations, both directly (as the Government intervened in industrial affairs), and indirectly, by showing industry the advantages to be gained from co-operative action in their dealings with the Government. By 1919 there were probably some 500 trade associations, while by 1944 there were approximately 2,500. At the present time the number is not very different and it is probably true to say that there is no industry or trade of importance which does not have its trade association.[1]

At the apex of the trade association hierarchy stands the Federation of British Industries. The antecedents of the F.B.I. are to be found in the Employers' Parliamentary Council (1898) and the Manufacturers' Association of Great Britain which came into being primarily to keep the State out of industry. They were not very successful organizations. In 1917 they were absorbed into the F.B.I. From that date the growth of membership has been rapid,

[1] Unfortunately there is no official estimate of the numbers of trade associations.

as can be seen from the following figures: 1917, 62 trade associations and 350 firms; 1918, 129 trade associations and 704 firms; 1925, 195 trade associations and 2,100 firms; 1950, 270 trade associations and 6,000 firms, until the Federation now claims to represent some 75 per cent. of productive industry. This growth was fostered by conditions both general and specific. First, among the general conditions creating a favourable environment for, and the motives leading to, the formation of associations may be noted:

1. The size of establishment has been increasing, partly as a result of technical progress leading to decreasing costs to scale and the change in the character of production brought about by the growth of mass-production industries; and partly as a result of mergers which have not always had anything to do with technical factors. Size plays an important part, for when the average size is large, either the number of firms in the industry is very small or the larger firms exert a predominant influence. Agreement is easier for a few large firms especially after a bout of intense price competition; and, when there are many small firms and a few large firms, the former will often follow the latter. Moreover, the large firms may reach agreement in order to maintain their dominant position. Interesting light is thrown on this by the fact that, in nearly all the cases so far investigated by commissions of various kinds, the trade association has been shown to be weakest and most unrepresentative where the predominant size of firm is small.[1]

2. Co-operation may be the result of a desire to share techniques and technical knowledge, and may find expression in the establishment of a research association or the sharing of patents.

3. The hope of gains by squeezing sellers may play a part, though this is more likely to be an important force when the sellers are themselves strongly combined. Organization at one level may well call forth corresponding organization at other levels in the productive chain; for example, when domestic producers have to deal with a strongly entrenched international cartel, a tight home organization may well be essential.

4. The hope of monopolistic gains by controlling prices and sometimes output is undoubtedly a powerful stimulus to organization. As in (1) above the stimulus will be greatest after a period of

[1] See, for example, the Working Party Reports on: *Heavy Clothing, Rubber-proofed Clothing, Furniture, Cutlery*; and A. F. Lucas, *Industrial Reconstruction and the Control of Competition*, for the difficulties of the Coal Council.

feverish competition when the firms concerned have tested their relative strengths.

5. Even where significant monopoly gains are not likely, formal and informal agreements, whether as to price or to conditions of trading, may still make life more comfortable for business than it would be under more highly competitive conditions.[1]

6. Tariff barriers make monopoly gains possible in the case of goods entering into international trade, and an association is a more potent force in pressing for tariff protection than an unorganized body of industrialists.

The most important specific reasons for association arose out of the economic conditions prevailing in the United Kingdom between the two wars. Then the two most significant factors were: (i) the large structural readjustments in the economy necessitated by the First World War, particularly in the basic industries,[2] (ii) the failure of the economy to maintain prosperous conditions at any time between 1921 and 1939. Regulation of entry and the control of conditions of trading look more attractive when markets are sagging. Moreover, the competitive process may be inadequate to deal with the necessary radical changes. If an industry is suffering from chronic overcapacity either through a secular decline of demand or a relative stagnation of demand where entry is easy, then the working of the price mechanism in eliminating the surplus capacity is at the best slow and at the worst ineffective. For, in the conditions postulated, there exists a large amount of capital, much of it with very low annual costs and of very little scrap value. So long, therefore, as current output can contribute anything to overheads and even where receipts fail to cover variable costs, provided the loss is smaller than the cost of closing down, the firm will stay in business. The market price might for a long time be below the long-run 'normal' price, and the tenacity of redundant firms, especially when they are small and opportunity costs are low, is remarkable. There is no guarantee that the more inefficient plants

[1] On the comfortable life read between the lines of: *The Interim Report of the Committee of Investigation into the Textile Machinery Industry*, 1947 and *Cement Costs: Report by the Committee appointed by the Ministry of Works*, 1947. These reports are remarkable not for what the industries concerned have done but for what they have been permitted to leave undone.

[2] For example, in the cotton and coal industries overseas markets had been lost during the war which were never likely to be regained. Considerable excess capacity was therefore revealed.

will be the first to close: the more efficient may have greater fixed costs and smaller financial reserves. If there are too many firms and too much capacity, the more highly capitalized firms who may well be the more inherently efficient, will produce below their designed capacity, and thereby become relatively high-cost producers. At the same time, what is perhaps more serious, any technical innovation and re-equipment in the industry will be prevented. Favourable though such conditions are to the institution of control, it does not always follow that control comes easily. Though in the case of a secular decline of demand where competition cannot quickly and efficiently cure the problems raised by excess capacity there is good reason for the exercise of some control, for an industry in which the decline in demand is a cyclical phase there is less excuse. In the attempt to stabilize prices over the course of the cycle, output will inevitably be less in the slump than it would otherwise have been, and it is difficult to see how schemes of control with their inevitable concomitant—the allocation of production quotas to constituent firms—can stimulate investment in the places where it is most desirable economically. Low-cost firms are held back and high-cost firms preserved. The rigid quota scheme may be varied to allow firms to buy and sell their quotas, so that the more efficient may buy the production quotas of the less efficient. This tends to average out the profits of the different firms, and, though it may appear to concentrate production in the more efficient plants, does so only at unjustifiable expense.

Quite frequently between the wars relatively simple schemes arose to maintain minimum prices and thereby prevent 'cut-throat' competition, which might arise for reasons already noted and, additionally, because some firms were not honouring agreements. They might be employing labour at 'sweated' rates, using unsuitable premises, neglecting safety precautions, or debasing quality.[1] This kind of scheme did not have the drawbacks of the quota system as firms might still go out of business,[2] but, where they were effective, they resulted in competition by service which the consumer could not elect to forego, and were therefore open to all the objections of resale price maintenance such as the unnecessary

[1] Cf. Working Party Reports for *Rubber-proofed Clothing* and *Furniture*.

[2] In linoleum, for example, though prices were controlled by the T.A., three firms out of a relatively small number went out of business in the 1920's.

proliferation of showrooms, salesmen, printed matter, &c., and pointless differentiation of the product.[1]

Objects

The real purposes for which an association exists may change with conditions, and, because an objective is named in the constitution, it does not follow that it is actively pursued. The universal presence of a general clause of the type: 'To promote consideration and discussion of all questions affecting the trade and generally to watch over and protect the interests of persons engaged in the trade', permits the trade association to do almost anything its members wish. P.E.P.[2] has conducted a sample inquiry into the purposes and objects of 100 trade associations. The sample is biased as it was confined to associations which are registered as companies. Those engaged in overt restrictive practices would not normally register as companies, preferring, as will be seen later, the advantages conferred by alternative forms of organization.

Twenty-five different objects were distinguished of which the most common were, (*a*) watching over legislation likely to affect the trade and making representations to the Government on matters of import to the trade; (*b*) the provision of statistics and information to members; and (*c*) arbitration between members. The following further objects are fairly common in this type of association.

1. *Technical.* The most important single activity in this sphere is the financing of research, whether the research is carried out directly by the association or by a separate entity set up for the purpose. There are now twenty-seven research associations financed partly by a trade association and partly by the Department of Scientific and Industrial Research. In addition to these state-aided associations there are some financed entirely by the industry, e.g. the British Iron and Steel Research Association.

Standardization of the product is sometimes stated to be an objective. It appears from such evidence as is available[3] that it is an objective actively pursued by few, even though contributions

[1] Cf. *Report on the Distribution of Building Materials*, 1948.

[2] *P.E.P. Planning Broadsheet*, No. 221, 1944.

[3] *Report of the Committee for the Standardization of Engineering Products*, 1949: *Distribution of Building Materials and Components*, 1948: 'the Builders' merchants are fully associated with and co-operate in the formulation of British Standards through membership of the various Standards Committees. They do not, however, appear to play a particularly prominent part.'

by trade associations account for a large part of the income of the British Standards Institute.

Finally, through the trade association, as, for example, in the electric lamp industry, patents may be shared. It may also disseminate information about new practices and spread knowledge of new techniques.

2. *Publicity.* Some trade associations organize shows and exhibitions, e.g. Radiolympia, the Motor Show, and the Society of British Aircraft Constructors' show at Farnborough. The Society of Motor Manufacturers and Traders was founded for this purpose. They may also own development associations which, as well as undertaking a limited amount of research, find new outlets for the product and promote its use by advertisement, e.g. the Gas Development Council. An important part of their work may lie in public relations, and in representations to the Government. For example, they may give news to the Press, answer points raised in public discussion, and generally promote the industry's point of view. To the Government the trade association may make representations about the effects of specific taxation, tariffs, and fiscal policy in general.

3. *Commercial functions.* (i) Though there are cases of associations which buy supplies co-operatively, their number is very small. An example of this kind of activity is to be found in the iron and steel industry where the British Iron and Steel Corporation purchases imported steel and scrap and a subsidiary purchases imported ore.

(ii) By far the most important common commercial function of trade associations is the regulation of the competitive process, usually called 'orderly methods of distribution', 'the fixing of reasonable prices', and 'the elimination of unfair competition'. Such regulation may be either formal or informal.

(*a*) It is clearly impossible to assess the prevalence of informal agreements to control prices. As one observer has put it:[1] 'What is notable among British consolidations and associations is not their rarity or weakness so much as their unobtrusiveness.' That they exist is undoubted. The director of the British Electrical and Allied Manufacturers writing in the *Electrical Review*, 27 January 1939, made the revealing statement,

by its constitution the Association is debarred from undertaking any-

[1] J. Hilton, a memorandum for the Committee on Trusts (1919).

thing in the nature of compulsory price control. Nevertheless it will be easily understood that with so many firms having similar interests and coming into association through B.E.A.M.A. mutual agreements might be entered into by which competition could be tempered by co-operation, the disastrous price-cutting which was stagnating the industry in the pre-war years could be eliminated and workable methods evolved by which reasonable prices should be charged.

Though the trade association may help in the making of informal agreements by encouraging the use of standard costing methods and by circulating average cost figures for the industry, to give content to such myths as the 'fair price', the circulation of such material may equally well be for the purpose of setting criteria by which firms can judge their efficiency.

(*b*) Formal control over prices has been exercised by some large associations for varying periods of time. In some cases, at a time of particularly low demand, this has also necessitated the division of output between firms. Examples are furnished by cement, coal, and iron and steel, where before 1939 both price and output were controlled.

(*c*) Some local associations in industries, where the price is fixed by competitive tender, may agree that firms shall tender in turn, while some national associations may allocate markets by preventing firms from absorbing delivery costs outside a certain area in their quoted price.

(*d*) Probably the most prevalent price-regulating function of trade associations is the practice of resale price maintenance. The associations concerned may be either manufacturer or dealer associations, or an association comprising both set up for this purpose. For example, in the motor-car industry there are three organizations, the S.M.M.T., the Motor Traders Association Limited, and the British Motor Trade Association Limited. The first looks after the interests of manufacturers, the second those of dealers, whilst the latter, to which both manufacturers and dealers belong, is exclusively concerned with resale price maintenance. Mr. K. Johnson-Davies, the secretary of the B.M.T.A. Ltd., shows the limits of the B.M.T.A. as follows: 'An underlying principle of the M.T.A. policy is that of requiring all producers of motor-goods, to fix, in free and open competition, the retail and wholesale prices for their respective products. The M.T.A. will not permit itself to operate as a price-ring. The prices of the products having thus

been fixed, the M.T.A. concerns itself with securing the observance of those prices.'[1]

(*e*) As a reinforcement to resale price maintenance the control of entry into the trade is clearly important. Distance limits between outlets are, for example, imposed in the newspaper trade, and enforced by the threat to withhold supplies. As Mr. Johnson-Davies has put it: 'It seems reasonable that a static policy of rigid and effective price maintenance will ultimately destroy itself, because the increase in numbers under the price-protection umbrella will eventually produce the same low-profit and no-profit condition which arose under price-cutting. . . . The control of numbers is the crux of the long-run aspect of price and profit protection, and therefore demands the attention of all Trade Associations.' It is more difficult to restrict entry into an industry at the manufacturing level, though even here attempts have been made with varying degrees of success. The Simon Committee found that in the building materials field substantial discounts were given to merchants who dealt with members of the manufacturing associations. They believed that this made it difficult for new manufacturers and, what is in some ways more important, that the introduction of new products by manufacturers not party to the agreements was inhibited. Exclusive contracts of this kind, specifying that the buyer will not buy from an outside firm, and loyalty rebates are the primary weapons of the manufacturers' associations in restricting entry. Other methods include the joint exploitation of patents (this is partly explained, where it occurs, by the hope of avoiding expensive and indecisive litigation), and the control of raw materials.

The F.B.I.[2]

The objects of the F.B.I. are of considerable interest, for, as the statement on Reconstruction (1942) maintained, its policy is to 'continue and expand the activities it has undertaken in the past in connection with advising trades on questions of organisation and helping them, when desired, to form trade associations or develop existing ones'. For these trade associations the statement recommended the following objects:

[1] For a full discussion of resale price maintenance see Mrs. Hall's contribution to this volume, pp. 399–423.

[2] For a detailed description of the organization see Brady, *Business as a System of Power*.

the general improvement and development of an industry by such means as interchange of statistics, interchange of methods of working, centralisation of research and experiment, technical education and commercial training, standardisation of plant, machinery and product: specialisation, joint publicity and propaganda, regulation of conditions and usages of trading and their application to the various industries, centralisation and control of sales, demarcation of territory to be allotted to the works geographically best fitted to carry them out, and the control of sources of supply of necessary materials.

In providing communication between industry and the Government and public, it makes representation on matters affecting industry, ranging from tariffs and taxation to the control of industrial effluents. Members of joint committees are also appointed by the Federation; for example, it is represented on the Board of Trade's Consultative Committee for Industry, the National Production Advisory Council for Industry, the Economic Planning Board, and the Regional Boards for Industry. Altogether it is represented on thirty-three government committees, and twenty-seven outside committees. An increasingly important part of the work is concerned with overseas trade, where its activities vary from close co-operation with British Export Trade Research Organization to the provision of overseas representatives and the display of samples abroad. Just as trade associations do not directly deal with labour questions, so the F.B.I. has left them to its *alter ego*, the British Employers' Confederation.

Effectiveness

The attainment of all these objects is very severely limited. In assessing the factors which are likely to play a part in the effectiveness of the association, it is as well to distinguish those functions which are primarily concerned with mitigating the rigours of competition from the others, though, if complete success is attained in the former activity, success may well be easier in the latter. Complete regulation of competition depends largely upon the trade association having among its members all the manufacturers in the industry. Since the association is terminable this has rarely proved possible for long, and in many industries between the wars associations for the regulation of competitive conditions at the manufacturing level were short-lived and ineffective.[1] In some cases,

[1] e.g. cement, cotton, and many branches of iron and steel before 1933.

where the product is not completely homogeneous and the market is imperfect, less than complete coverage may still permit control to raise prices a little.[1] Even when the minimum price has been agreed, ways of price-cutting are still available by such methods as the granting of long credit facilities, quantity discounts, free delivery, &c., and by hidden discounts to old and favoured customers. Moreover it pays any one manufacturer to stay outside the agreement, and, where a firm is particularly anxious to expand, either because it is more efficient than its rivals or because it has a more dynamic management, the agreement is unlikely to last long. A further check is provided by the possibility of new entrants into the field, especially in those industries where the average size of firm is not large. The threat of new entrants is not of course an effective check to monopolistic exactions of a 'moderate' kind, for the very existence of a restrictive association widens the gap between the rate of profit necessary to call forth new firms under fully competitive conditions and the rate necessary under polypolistic conditions. The competitive power of new products has also to be considered. Thus between the wars the activities of the International Tin Committee stimulated the expansion of the aluminium industry.

Before any appreciable price rise can be engineered, tariff protection may be necessary and not forthcoming. But, even where there is no tariff, the existence of international cartels and agreements made with them by the National Association reduce the effectiveness of international competition.

The limits thus set to monopolistic exploitation are most likely to be effective in industries where the restrictive policy is a temporary expedient to meet a cyclical decline in the market.

The law and the trade association

By the Trade Union Act of 1876 any combination which imposes restrictive conditions on the conduct of any trade is a trade union, whether or not it is declared to be so in articles and is thereby registered with the Registrar of Friendly Societies. Agreements, legal or otherwise, entered into between the members of such a combination are unenforceable in the Courts provided they are in

[1] e.g. in the case of electric lamps the association has by the use of loyalty rebates to dealers been able to keep prices higher than for lamps manufactured outside.

restraint of trade. The combination can, and does, make its own rules and devise its own methods of enforcement. Though for some time the legality of the enforcement was questioned, the position has been settled by the leading cases of *Ware & de Freville* v. *M.T.A.* (1921), which said that operating a stop-list was not actionable as a conspiracy at civil law, and *Thorne* v. *M.T.A.* (1937), which said that an attempt to exact fines did not amount to the criminal offence of demanding money by threat.

Even where a trade association is not a trade union for the purpose of acting in restraint of trade, but is registered as a company, it may still pursue all the objects of a trade union. It runs a slight risk that its contracts may be unenforceable, that it may be charged with conspiracy, and that actions for damages may be entertained. This risk is in fact very slight. Since the judgements in the *Mogul Steamship* case (1892), *Allen* v. *Flood* (1898), and *Sorrel* v. *Smith* (1925), combinations which have for their purpose the protection and advancement of their particular trade are not actionable unless damage results from conduct in which the desire to injure predominates over the desire to protect one's own interests—a very unlikely event. Contracts in restraint of trade are enforceable at law unless they are against 'the interests of public policy'. The meaning of these words can be interpreted to cover almost any action. Evidence as to the interests of public policy is not admissible and the contract or action has therefore to be judged on its merits as a matter of law. It is not surprising that A. L. Haslam, in *Law Relating to Trade Combinations*, found no occasion upon which the Courts have declared that because a combination puts down competition it must be condemned on grounds of public policy.

Though theoretically the law abhors restrictive practices, and these were, until the late nineteenth century, criminal conspiracies at common law (even though not all the judgements reflected this attitude), in the absence of substantive legislation and a clear guide to what public policy is, the long list of cases has served to establish the sanctity of the contract and the freedom of the business man to do what he will in his own interest.

Conclusion

The impermanence of terminable associations, wherein the individual firms retain their identity, compared with amalgamation involving the loss of financial independence of the units, has led

many to believe that the former type of organization is inadequate for the problems they may have to face. Experience on this point is a dubious guide. In shipbuilding and milling the associations were able to retire redundant capacity, and the reconstruction of that which remained was encouraged; in other industries attempts at voluntary organization met with little success. In cotton, firms proved so recalcitrant that in 1939 the Government introduced a Bill to compel reorganization, while in iron and steel, though an all-inclusive Federation was set up, most observers have maintained that its pre-war achievements for reconstruction were negligible. Many therefore believed that where a majority of the producers were in favour of an association with powers to act, the Government should compel the minority to join and obey.[1] By 1939 no such action had been taken, and more recent suggestions by industrial organizations have not advocated compulsion even where they have cast a longing eye upon it. The mainspring of this movement toward 'self-government in industry' is to be found in the failure of governments during the inter-war years to give a clear lead in the solution of industrial problems and to solve the problem of a persistent deficiency of demand; a failure reinforced in its effect by a lingering misunderstanding of the meaning of *laissez-faire*. The idea of *laissez-faire* excludes all restrictive practices. By 1920, however, business men interpreted it as 'the trade knows best'.

The Second World War had a similar effect to that of the First World War. It was noted before that the peak period of formation fell in 1919. That a similar peak has not been observed after the recent war is due mainly to the fact that so few trades remained unorganized. Even so, at least sixty-five trade associations were set up between 1939 and 1945. As one participant has put it, 'thus has war supplied the impetus to achieve that which every inducement in peace in so many instances failed to do'. This impetus was derived from the necessity to control the output of inessential goods, and the fact that the State was, during war, such a large buyer.

It is natural that when a government department has to deal with an industry, it should prefer to deal with one organ representing, however inadequately, that industry rather than with individuals. Some trade associations were set up during the war at the

[1] The Agricultural Marketing Boards provided a model.

instigation of the Government, and it has been responsibly stated several times that the Board of Trade likes dealing with them. In some cases the allocation of materials was handed over to export groups and trade associations.[1] The system of controls which was devised[2] relied heavily upon industrialists and trade associations. This, of course, was inevitable. Only they could provide the requisite experts and a ready-made channel of communication. Similarly, in the policy of concentration of industry which was started in 1941 to release manpower for the armed forces and munition work, the trade associations played a considerable part. Fears[3] that this would result in permanent tight control by associations after the war have, in fact, proved groundless, and there is no evidence that this policy has strengthened unduly the trade associations concerned.

The war and post-war conditions have lessened the incentive for the more restrictive practices. The fear of bankruptcy and redundant capacity must now play little part in such policies, though industry may still fear the return of those conditions. The hope of monopoly gain remains always. Associations are growing both in numbers and in coverage. Such a trend is inevitable, both because the present problems of industry may be equally as complex if not the same as formerly, and because the climate of opinion has by now so changed that the Government will certainly intervene more in economic affairs.

Trade associations raise problems of economic interest in two ways. First, they may be engaged in restrictive practice of all kinds, and, for the many diverse reasons we have noted, these practices may well have the drawbacks of full monopoly and enforce none of its advantages. Secondly, they could be—and some already are—instruments for greater efficiency. They can provide those services which an industry organized in small units cannot provide within the unit, and thereby help the small firm to achieve some of these advantages of size otherwise closed to it. These external economies of scale include research, where the minimum size of establishment

[1] Export groups were set up in 1940 at the instigation of the Board of Trade Export Council to assist exports. After Lend-Lease their activities were diminished as the export drive slackened. They led to a strengthening of trade associations as previously recalcitrant but powerful firms were drawn into the associations. See *P.E.P. Broadsheet*, No. 240, 1945.

[2] See Chapter VII and *Oxford Economic Papers*, Old Series, Nos. 4, 6.

[3] e.g. *The Economist*, 22 Nov. 1941.

is very large, the provision of statistics and general trade information, the encouragement of good design, and the establishment of quality standards.[1] In doing this service they may offset a tendency for the size of the plant to grow. Many Working Party Reports were impressed by the lack of these facilities and recommended the strengthening of existing trade associations in these directions and their establishment for this purpose where they did not exist.

If, as seems likely, legislation against monopolistic practices is enacted, the market for goods will of course remain imperfect. Perfect competition is a myth, which is a convenient over-simplification to the economic model-builder. It cannot be created by removing government controls, or by suppressing the monopolistic practices of trade associations.[2] The important aspects of 'competition' are qualitative. Intense competition is possible between 'monopolists', and, though legislation cannot force firms to compete, it can prevent them openly agreeing not to do so. From the economist's point of view we may distinguish from the above analysis three main points of interest. (1) When there is a serious problem facing an industry which cannot be dealt with efficiently by the working of competition, centralized action is essential, and here the trade association has an obvious part to play. (2) The practices of some trade associations have the effect of producing 'monopoly' profits or excessive costs, of conserving the existing structure of the industry, or of slowing down the rate of technical progress. These practices distort the structure of the economy and prevent the more efficient firms from eliminating the inefficient. This is clearly shown in the sphere of distribution.[3] (3) Finally, the good which associations can do should not be obscured by the harm some have done. They have an important part to play in raising the average standard of efficiency in the industry. They can spread knowledge of the best manufacturing practice, do research, press for more standardization, raise standards of quality. These useful functions are quite independent of monopolistic practices.

[1] See, for example, the *Furniture Working Party Report*. Since furniture is usually bought only once in a lifetime the consumer has little experience and is therefore easily cheated by buying too cheaply furniture made by unscrupulous manufacturers. The Report (pp. 193 and following) gives interesting evidence of the industry's failure to satisfy consumers. Cf. also the evidence of the Council of Industrial Design.

[2] It should be emphasized that not all trade associations engage in monopolistic practices.

[3] See Chapter XVIII.

CHAPTER VI

INDUSTRIAL RELATIONS

By ALLAN FLANDERS

The nature of the voluntary system

THE terms and conditions of employment of employees, whether they are paid a wage or a salary, may be settled by one or more of three methods: individual bargaining, collective bargaining, or public regulation. Individual bargaining takes place in the absence of any form of regulation. Each individual employee comes to an agreement with his employer about the terms of his contract of employment without entering into any arrangement with other employees in doing so, and the employer is also free to offer whatever terms he thinks fit. Collective bargaining involves employees acting together, usually through the agency of a representative organization—a trade union, to influence their remuneration and working conditions. The agreement which they reach with their employer or employers has a regulative effect. Collective agreements (written or unwritten), which are the outcome of collective bargaining, impose limits on the employers' freedom of action in their relations with all their employees—not only those who are members of a trade union. Such limits can also be imposed by legislation, by measures like the Factories Acts or the Wages Council Orders. This is the method of public regulation which provides for the legal enforcement of minimum terms and conditions of employment. Theoretically it could also be used to prevent employers paying more than stipulated rates of wages.

Britain is regarded as the home of collective bargaining. The term seems first to have been used by Beatrice Webb in 1891. By then it was already a flourishing institution in a number of industries, notably coal-mining, cotton textiles, boot and shoe manufacture, and among skilled workers in the metal, engineering, shipbuilding, printing, and building trades. Over the past century the use of collective bargaining has been extended fairly continuously, apart from set-backs in some industries during the inter-war years. Fifty years ago, for example, it was practically unknown for salaried employees to bargain collectively, but this particular distinction between manual and non-manual workers has largely disappeared.

Teachers, civil servants, and local government officers, draughtsmen, actors, and journalists, even doctors and colliery managers, are all collective bargainers now.

The greater part of collective bargaining is conducted between trade unions and employers' associations, but the process is not confined to negotiations between them. Trade unions often bargain with an individual employer and enter into agreements which apply only to a particular firm. An employer may also bargain with an elected works committee, even in a well-organized establishment, on matters not regulated by union agreements.

Furthermore, collective bargaining cannot be clearly separated in practice from individual bargaining, on the one hand, or public regulation on the other; the three methods merge one into another. Piecework prices in the engineering industry are regulated by a collective agreement which stipulates that they 'shall be such as will enable a workman of average ability to earn at least' a minimum percentage above time rates. But individual bargaining is bound to take place between the workman and the management over the piecework price for a particular job, and this may influence appreciably the workman's earnings and the work effort involved. Collective bargaining is also mixed up with public regulation in the type of minimum wage legislation which has been adopted in this country. The workers' representatives on wages councils are usually trade union nominees, and the recommendations which a wages council asks the Minister to enforce are the result in part of a bargaining process.

Yet with all these important qualifications it can be said that the main pattern of industrial relations in Britain's industries and services today is determined by collective agreements concluded between trade unions and employers' associations. We often speak of these agreements forming a 'voluntary system' based on the principle of 'mutual consent'. But these conventional terms cannot be accepted without further explanation. The use of the words 'voluntary' and 'consent' can be misleading if they are taken to imply the absence of any form of compulsion. Regulation necessarily involves sanctions. The regulative effect of collective bargaining in this country is enforced today by a mixture of economic, social, and, to some extent, legal sanctions.

The employers were not brought to recognize trade unions and to engage in organized bargaining merely by the use of persuasion.

Their opposition had first to be broken down, and in the early stages this was accomplished mainly by the application of the workers' industrial power, the economic sanction, which lay in their capacity collectively to withhold their labour. Even today strikes on the issue of union recognition are not unknown, and there are industries (e.g. laundries) in which well-organized employers' associations refuse to enter into agreements with trade unions. Once employers have agreed to recognize trade unions, however, both they and the unions have a common interest in avoiding unnecessary conflict by adopting an agreed procedure for negotiation and the settlement of disputes.

Since the acceptance by the Government in the 1914–18 War of the principles and recommendations of the Whitley Committee, the social sanctions which uphold collective bargaining have steadily gained in importance. They are less tangible than the economic and legal sanctions—as intangible, in fact, as public opinion—but they are real and effective. The view of the Whitley Committee that 'an essential condition of securing a permanent improvement in the relations between employers and employed is that there should be adequate organisation on the part of both' and their emphasis on 'the advisability of a continuance, as far as possible, of the present system whereby industries make their own agreements and settle their differences themselves' have become the accepted norms of government policy whatever party is in office. The voluntary system is regarded favourably by employers, workers, and the general public alike.

The law relating to collective bargaining is slight and of little practical importance. Neither trade unions nor employers normally attempt to secure respect for their agreements by recourse to legal action, and in most cases they would be unable to do so.[1] The legal sanctions behind collective bargaining, where they exist, are largely indirect. The Government has lent support to the practice of collective bargaining in various ways and to an increasing extent, but its intervention has been designed to encourage the growth of autonomous institutions and voluntary agreements. Up to 1948 it had rarely sought to influence the outcome of negotiations.[2]

[1] For some interesting comments on the legal position of collective agreements see O. Kahn-Freund, 'Collective Agreements under War Legislation', *Modern Law Review*, Apr. 1943.

[2] The White Paper issued in Feb. 1948, the *Statement on Personal Incomes, Costs and Prices*, is dealt with in Chapter XIV.

One of the consequences of this organic mode of development (as opposed to deliberate planning) is the complexity and variety which exists in the structure of trade unions and employers' organizations and in their joint arrangements for bargaining and other purposes. At first sight our system of industrial relations appears to be as untidy as life itself.

Organization of employers and employees

The economic functions of employers' associations and trade unions are broadly defined by the meaning given to the expression 'trade union' in British law, where it is used to encompass both types of organization. For the purpose of the Trade Union Acts, 1871 to 1940, a 'trade union' is any combination (whether temporary or permanent) whose principal objects under its constitution are: the regulation of the relations between workmen and masters (or between workmen and workmen or between masters and masters); *or* the imposing of restrictive conditions on the conduct of any trade or business; *and also* the provision of benefits to members.[1]

Employers' organizations fall generally into two main classes. There are the trade associations, considered in Chapter V of this volume, which often regulate competition among employers and generally provide them with joint services in their trading activities. There are also the employers' federations which were formed largely as a response to the growth of trade unions and act as their counterpart in collective bargaining. The existence of the two central employers' federations—the Federation of British Industries for economic and commercial questions, and the British Employers' Confederation for labour questions—reflects this division of function,[2] although some employers' organizations, like the Cable Makers' Association, undertake both functions.

In September 1943 there were approximately 1,900 employers' organizations active in the field of industrial relations. Less than one-sixth of them were national federations, and the remainder consisted for the most part of local or regional branches of these

[1] See N. A. Citrine, *Trade Union Law*, 1950, pp. 297-309, for the complete modern definition and a discussion of its meaning.

[2] In Dec. 1946 the two bodies decided to amalgamate, by decisions taken in separate meetings, but the differing structures of the two organizations have proved to be a formidable obstacle to fusion.

federations.[1] Unfortunately, there is very little published information on their organization and activities.[2] Their deliberations are private; their reports and circulars are treated as confidential documents; they are in the main extremely reluctant to disclose facts about their membership and finances; and since, unlike the majority of trade unions, very few of them are registered under the Trade Union Acts anyway, they are not compelled to do so.[3] Usually they are organized on an industrial basis, although some are local in character and deal with only one section of an industry. The degree of authority which they exercise over their member firms varies considerably. In some industries, large as well as small concerns remain outside the employers' federation because they do not wish to be bound by its labour policies.

Information is not lacking on the membership, finances, structure, constitutions, and policies of trade unions and on their historical development, although the theoretical analysis of their activities has been seriously neglected since the Webbs wrote their *Industrial Democracy* more than fifty years ago. At the end of 1950 there were still more than 700 separate trade unions in the United Kingdom, and 400 of them had less than 1,000 members. But the seventeen largest unions (each with more than 100,000 members) accounted for two-thirds of the total number of trade unionists, approximately 9¼ million.[4] The largest trade union, the Transport and General Workers' Union, had more than 1¼ million members, and one of the smallest, the National Amalgamated Association of Nut and Bolt Makers, had thirty members. For the sake of comparison it may be noted that in 1900 there were about 1,300 trade unions with an aggregate membership of just over 2 million; the largest of them was the Amalgamated Society of Engineers with less than 88,000 members.

The most significant trend in the structural development of trade union organization in the twentieth century has been the

[1] Ministry of Labour and National Service, *Industrial Relations Handbook*, 1944, p. 16.

[2] Apart from ch. iii of Professor J. H. Richardson's *Industrial Relations in Great Britain* (International Labour Office), 1938.

[3] In 1950 there were ninety-six registered associations of employers in Great Britain, with an aggregate membership of 116,703. The number of registered trade unions was 416 with 7,947,535 members, or more than 85 per cent. of the total trade union membership.

[4] 'Membership of Trade Unions in 1950', *Ministry of Labour Gazette*, Nov. 1951.

growth of large unions through the process of amalgamation. Yet the voluntary character of trade unionism in this country, the fact that any group of workers can if they wish have their own union, has resulted in the continued existence of a multiplicity of organizations, of all shapes and sizes, preserving their separate identities.

Amalgamations have not taken place according to any one pattern or theory of union organization. Some, but by no means all of the various craft unions, which still formed the bulk of the movement at the beginning of the century, have become merged into large, national, multi-craft unions (e.g. the Amalgamated Society of Woodworkers). A few of these in turn (e.g. the Amalgamated Engineering Union) have admitted the less skilled workers employed in close connexion with their trades. Yet there still exist plenty of single craft unions confining their membership to one locality (e.g. the London Society of Compositors). The emergence of the two great general unions, the Transport and General Workers' Union and the National Union of General and Municipal Workers, which together cast more than a quarter of the votes at the annual Trades Union Congress, is perhaps the most outstanding result of unplanned development. One reason for their success has been their flexibility in organizing; the fact that they acknowledge no theoretical limits to their domain enabled them to enter those fields of employment which other unions were prepared or compelled to ignore. The development of industrial unions in this country has also been one, but only one of the results of the general process of amalgamation. Some of them (e.g. the National Union of Railwaymen) were created with the conception of industrial unionism as the ideal form of organization, while others (e.g. the National Union of Boot and Shoe Operatives) developed without preconceived theories, as the most suitable type of organization for the workers concerned. None of the industrial unions has been entirely successful in occupying the whole of its chosen sphere.

Compared with that of most other countries the general picture of trade union organization in Britain is still a very untidy one. More than a dozen separate trade unions may well be represented in one establishment. But in the midst of all this diversity there has undoubtedly been a steady trend towards the closer integration of the industrial policy of trade unions and the lessening of inter-union conflict. This has been helped forward by the strengthening of industrial federations of unions (e.g. the Printing and Kindred

Trades Federation, the National Federation of Building Trade Operatives, and the Confederation of Shipbuilding and Engineering Unions) and by the formation of Joint Industrial Councils since the First World War. The Disputes Committee of the Trades Union Congress has also contributed greatly to diminishing friction among unions competing for membership by arbitrating in disputed cases in accordance with principles agreed by Congress.

The existence of one central body, the Trades Union Congress, which can fairly claim to speak in the name of the trade union movement as a whole, has been a further simplifying factor in this complex structure. It is true that in 1950 only 186 trade unions were affiliated to the T.U.C., but some of them were, in fact, federations of unions,[1] and their aggregate membership was not far short of 8 million. There are only two large unions (with more than 100,000 members) which are not affiliated, the National Association of Local Government Officers and the National Union of Teachers, but both of them are on good terms with the T.U.C. Most of the other unaffiliated unions of any size organize employees in national or local government service.

When the Trades Union Congress was reorganized in the early twenties the main idea was that the new General Council (which replaced the previous Parliamentary Committee) should act as a kind of 'general staff, which would be capable of guiding and solidifying the movement on national issues'.[2] The present constitution of the T.U.C., which has not been appreciably altered since 1924, still reflects the prevailing concerns and composition of the trade union movement at that time. The very limited powers granted to the General Council, for example, were defined mainly with an eye on mobilizing mutual support in times of industrial conflict. In practice the General Council succeeded in strengthening its moral authority largely on account of the increasing participation of the Government in economic affairs. This shifted the emphasis from industrial to political action (in its broadest sense) within the trade union world: and the representation of the workers' interests in regard to impending legislation or administrative action could best be undertaken by a central body.

The Second World War acted as a powerful stimulus in develop-

[1] The constituent unions of these federations are counted separately in the figures for the total number of unions already given.

[2] Walter M. Citrine, *The Trade Union Movement of Great Britain*, 1926, p. 67.

ing the new partnership between the trade unions and the State, a relationship which has enhanced the authority of the T.U.C. Shortly after the outbreak of hostilities, the Prime Minister directed all government departments to consult with the T.U.C. before taking action on matters likely to affect the interests of work-people.[1] In the following years the various advisory bodies which were created to assist the Government in the handling of war-time problems and the execution of its industrial policy were mainly of a tripartite character, with the T.U.C. acting as the custodian of the general interests of employees on an equal footing with the central employers' federations. When many of these war-time bodies were subsequently converted to meet peace-time needs, the T.U.C. continued to participate in this way in shaping the nation's economic policy.

Collective bargaining procedures

Most of the older industries, including coal-mining, iron and steel manufacture, engineering and shipbuilding, railways, building, printing, cotton textiles, and boot and shoe manufacture, have separately evolved their own procedures for negotiation and the settlement of disputes. These arrangements vary considerably since they have been influenced by many factors peculiar to the industries concerned, including geographical distribution, the size of undertakings, the form of wage payment, the extent and the structure of employer and employee organization, and, not least, the force of established traditions. The extent of this diversity can best be illustrated by a brief description of the prevailing collective bargaining procedures in the building and engineering industries, both of which have an unbroken history of trade union organization among skilled workers going back well over a century.

The building industry has a highly centralized system of negotiations and a well-defined and complete procedure for dealing with all questions arising between the organized employers and the trade unions. This has led to a remarkable degree of uniformity in wages and other conditions of employment. The National Federation of Building Trade Employers, and the National Federation of Building Trade Operatives, which includes both the craft and the

[1] See Herbert Tracey, *Trade Unions Fight—for What?*, 1940, chaps. 2, 3, and 4, for the developments leading up to this directive and the subsequent tripartite arrangements.

general workers' unions, each appoint half the members of the National Joint Council for the Building Industry. One of the tasks of this body since it was formed in 1920 (its present name dates back to 1926) has been the grading of towns and districts for the purpose of regulating 'working rules' (including wages) nationally, while allowing for differences in local circumstances. There are now six grades for the whole country. A uniform hourly wage is fixed for all craftsmen in each grade, and is tied to a cost of living index sliding scale; the labourer's rate is so much an hour less than the craftsman's rate; and the wages of apprentices and those of young male labourers are related respectively to the craftsmen's and the labourers' current rates. Apart from wages, national working rules cover working hours, extra payments, overtime, night gangs, walking, travelling and lodging allowances, guaranteed payments in relation to time lost, termination of employment, apprenticeship, holiday payments; and a code of welfare conditions has been agreed which has the same authority as a national working rule.

Under the authority of the National Joint Council which extends over England and Wales—there is a separate organization in Scotland—nine Regional Joint Committees function, which in turn are able to set up Area and Local Joint Committees at their discretion. The powers of these bodies are limited. They can introduce 'variation amendments', or proposals to alter national rules in so far as they affect a particular region, but such alterations must be ratified by the national body. An elaborate conciliation procedure has been developed for dealing with all disputes which may arise between federated employers and their workmen. If the Council itself is unable to agree, it has first 'to appoint a Special Committee to examine the position with a view to ascertaining on what terms the question at issue might be settled'. When this course fails the constitution further provides that 'it shall be the duty of the Council to refer the matter to arbitration', the method to be determined in each case 'by a majority of the Council present and voting'.

In that complex of industries and trades which we call engineering both the workers and the employers are also gathered together in single federations and the main changes in wages and working conditions, at least for manual workers, are now brought about by negotiations between them. The employers are represented by the

Engineering and Allied Employers' National Federation, although quite a number of engineering concerns do not belong to it. On the workers' side the Confederation of Shipbuilding and Engineering Unions, since the affiliation of the Amalgamated Engineering Union in 1947, embraces all the unions of any importance in the industry including the general and non-manual workers' unions. But the two federations have not yet established a permanent joint body meeting at regular intervals—as in the building industry—for regulating their joint relations and conducting collective bargaining. National negotiations take place by the calling of special conferences on the initiative of either side, and when they mean business they set up a Joint Committee to go into detail.

National agreements regulate such matters as the length of working week, overtime, shift systems, holidays, payment by results (to some extent), and the recruitment, training, and wages of apprentices and juveniles. Since the First World War wage rates have been changed nationally for all manual workers by altering the amount of 'national bonus' (originally called 'war bonus') to be added to the various district rates. The wage structure of the industry is so complicated, however, that it certainly cannot be described in a few sentences. It is based on out-moded assumptions, which had some validity in the nineteenth century, and in practice diverges greatly from the terms of national and district agreements. An agreed procedure exists for dealing with disputes or 'questions arising' mainly in individual establishments (although formally it covers 'general alterations in wages'). This is based on an agreement signed in 1922. Unresolved disputes are referred upwards until they reach the last stage which is a central conference at York between the headquarters officials of the unions and of the employers' federation. There is no provision for arbitration at any stage. If the two sides fail to agree at York the case may be referred back for reconsideration at the establishment level. Actually in 1950 of the sixty references of the Amalgamated Engineering Union to the central conference only one was settled; twenty-three resulted in 'no agreement'; twenty-one were referred back to the works concerned; and the other references were retained or withdrawn.[1]

A more standardized form of collective bargaining procedure exists in those industries and services which have set up Joint

[1] Source: *A.E.U. Monthly Journal*, N.S. xvii. 1–12, 1950.

Industrial Councils or their equivalents. The Whitley Committee recommended their formation, together with District Councils and Works Committees, in all well-organized industries, for the dual purpose of negotiation and consultation on matters of mutual interest. In the main, this recommendation was only acted upon by industries which had not previously developed any very firm or general arrangement for collective bargaining. More than a hundred J.I.C.s came into existence in the years 1918 to 1921 (some of them were called Interim Industrial Reconstruction Committees), but less than half of them survived the post-war slump and the period of industrial conflict which ended with the 1926 General Strike. Even these were by no means uniform in their structure or their functions, since the employers' associations and trade unions concerned were left to adapt the model scheme to their own requirements. Most of them became in practice no more than a form of national negotiating machinery, created with the help of the Ministry of Labour. During the Second World War fifty-six J.I.C.s were revived or newly established and others were added after the war. By the end of 1950 there were some 130 of them. The most important fields of employment which they cover are: public administration, including national government and local authorities; public utilities, gas, water, and electricity; transport other than railways; and a wide range of miscellaneous industries including bricks, hosiery, furniture, chemicals, and flour-milling.

In spite of the variety in the forms of joint organization evolved, two main trends in the development of the voluntary system over the past half century can be noted. The first is the shift from local to national bargaining, and the second is the increasing acceptance of provisions for arbitration in the event of the two sides being unable to agree.

By 1945 national agreements regulated the main terms and conditions of employment in nearly all well-organized industries and services. In some, as in building or railways, they did so almost completely. In others, as in coal-mining, they determined only minimum rates of wages, or, as in engineering, only general wage changes but not district rates. The degree of national regulation varies, but negotiations conducted in most cases between the permanent officials of the headquarters of trade unions and of employers' associations have become the predominant form of collective bargaining. This has not meant the elimination of district

wage differentials, but it has tended to reduce them in number and in amount. Even in piecework industries, although the negotiation of actual piecework prices or work loads usually takes place within individual establishments, national agreements regulate minimum (or 'fall back') time-rates and frequently provide for a percentage addition to those rates which the earnings of the average workman on payment by results are expected to reach.

In some industries the principle of arbitration was accepted before the present century, as in boot and shoe manufacture and certain parts of the iron and steel industry, but generally it was not regarded with favour by the trade unions during the period of their most rapid growth, 1900–20, when many of them were still struggling to secure adequate recognition. Only since the First World War has the number of industries in which employers and trade unions have been willing to accept a binding commitment to turn to arbitration in the last resort (within the terms of their agreements) steadily increased. Some of the main industries which have as yet refused to accept such a commitment are engineering, railways, and printing. Coal-mining and the Civil Service have their own arbitration tribunals. So have the railways, but reference of a case to it depends upon both sides consenting to this course.

Statutory wage regulation

The voluntary system has been supplemented and supported by the progressive development of a particular form of statutory wage regulation which was first introduced by the passing of the Trade Boards Act of 1909. This Act empowered the Government to set up a board to fix minimum wages for timework or piecework in any trade where the prevailing rate was 'exceptionally low as compared with that in other employments'. As a result of one of the recommendations of the Whitley Committee this cautious experiment was extended by a further Trade Boards Act in 1918. The Minister of Labour could then make an Order for a Trade Board if he was 'of the opinion that no adequate machinery exists for the effective regulation of wages throughout the trade'. The emphasis was shifted from unduly low wages to the absence of voluntary organization; and thirty-seven new Trade Boards were formed in the years 1919 to 1921 in addition to the eight already existing in Great Britain.

All these boards continued to function during the inter-war

years. They withstood the challenge which came first from the employers in 1920, leading to the Cave Committee's Report in 1922, and later from within the trade union movement in 1931, leading to an inquiry by the T.U.C.'s Trade Boards Advisory Council. But very few new trade boards were established and these mainly after 1937. In other industries, however, statutory wage regulation gained ground under separate legislation. Already in 1912 the Coal Mines (Minimum Wage) Act had provided for minimum time rates for all underground workers, but this had little operative effect since the rates fixed by collective bargaining were usually higher. In agriculture a legal minimum wage had been introduced during the First World War and, after having been allowed to lapse, was reintroduced on a county basis for England and Wales in 1924 and for Scotland in 1937. The Cotton Manufacturing Industry (Temporary Provisions) Act, 1934, was based on a different principle. It gave legal force to voluntarily negotiated agreements in an industry faced—in the words of the Board of Inquiry's report—'with the possible collapse of the whole principle of collective bargaining' on account of competition from the unorganized sections with lower labour standards. In 1938 the Road Haulage Wages Act substituted statutory regulation of wages by joint boards for a voluntary system which had broken down owing to lack of organization on both sides, and the Holidays with Pay Act empowered trade boards (and other statutory wages boards) to give directions providing for holidays with pay up to one week in the year.

It was left to Mr. Bevin, as Minister of Labour and National Service in the war-time Coalition Government, to complete this system of statutory wage regulation, both by greatly enlarging its scope and by strengthening the powers of the bodies undertaking it. This he accomplished mainly under the Catering Wages Act, 1943, and the Wages Councils Act, 1945.[1] The first of these measures provided for the establishment of a permanent Catering Wages Commission with the responsibility of examining the arrangements for the regulation of wages in any branch of the catering industry and of recommending the setting up of a Wages

[1] The Agricultural Wages (Regulation) Act, 1947, made permanent the war-time arrangements which had introduced a *national* minimum wage into agriculture. Minimum rates for time- and piece-work are fixed by the Agricultural Wages Board in England and Wales, and by the Scottish Agricultural Wages Board in Scotland. They also cover market-gardening.

Board where such arrangements were found to be inadequate. By 1947 five such boards had been formed, covering all the more important sections of the industry.

The Wages Councils Act renamed the trade boards to 'remove the stigma of being associated with the sweated trades' as the Minister explained to the House of Commons. It widened their jurisdiction on wages to the fixing of 'minimum remuneration' in place of 'minimum rates', which enabled them *inter alia* to make provisions for a guaranteed week. Their activities were also no longer restricted to questions of pay—they could advise the Minister on such matters as training, recruitment, and working conditions. New wages councils could be established by the Minister for additional reasons than those provided in the 1918 Trade Boards Act, namely, 'on the recommendation of a commission of inquiry which is of the opinion that voluntary machinery is not and cannot be made adequate or does not exist *or is likely to cease to exist or be adequate*, and that as a result a reasonable standard of remuneration is not being or will not be maintained' (author's italics). The Wages Council Act, 1948, amended the 1945 Act in some particulars and converted the Road Haulage Central Wages Board into a Wages Council.[1]

The wages councils are constituted on similar lines to the trade boards. They consist of an equal number of employers' and workers' representatives with not more than three independent members, including the chairman. All members are appointed by the Minister at his discretion but in practice a large majority of the representative members are nominated by trade unions and employers' associations. The proposals of the wages councils become effective only when confirmed by the Minister after time has been given for objections to be lodged. He can refer back their recommendations for further consideration, but he cannot himself fix wages. Once confirmed the minimum wages (and conditions) become legally binding on all employers concerned, and the Ministry employs a special staff of inspectors to see that they are observed. Employers violating the Orders are liable to fine and imprisonment as well as to the payment of any arrears of wages due to the workers.

The main field of employment which came under statutory

[1] This covers the privately owned sector. In nationalized road haulage there is voluntary machinery.

regulation for the first time after the passing of the 1945 Act was retail distribution. This added some 1¼ million workers (roughly 60 per cent. of the total number of employees in the distributive trades), as many as those covered previously by all the trade boards. At the end of 1950 the total number of wages councils in existence was sixty (44 of them covered Great Britain, 8 England and Wales, and 8 Scotland). Some of the larger fields of employment where they operate, apart from retail distribution, are clothing and laundries and certain textile, metal-ware, and food-processing industries. If we include agriculture and catering, the number of workers whose wages and working conditions are now subject to statutory wage regulation must be in the neighbourhood of 4½ million, although some of them are also covered by collective agreements.

Extent of government intervention

Apart from the Factories Acts,[1] which impose legal minimum standards of safety, health, and welfare, and regulate the hours and times of work of women and young persons, government intervention in the sphere of industrial relations has in the main served two purposes: to give support to the voluntary system, and to help to maintain industrial peace.

The policy of supporting the voluntary system has been expressed in various ways. Statutory wage regulation, as we have seen, has been designed with this objective in view. In one industry, furniture manufacture, the setting up of a Trade Board in 1939 led to a strengthening and federation of organization on both sides and the formation of two Joint Industrial Councils, so that in 1947 the the Trade Board could be abolished. The role of the Ministry of Labour as a midwife at the birth of Joint Industrial Councils is another expression of the policy. It also underlies the day-to-day administrative action of the Ministry officials as much as the general course of labour legislation.

The 'Fair Wages Clause', first introduced into government contracts in 1891, has become an increasingly important form of governmental support of voluntary agreements. It was reformulated by a House of Commons resolution in 1909 to provide that con-

[1] For a summary of their provisions see *A Short Guide to the Factories Acts 1937 and 1948*, H.M.S.O. 1949.

tractors 'shall under a penalty of a fine or otherwise, pay rates of wages and observe hours of labour not less favourable than those commonly recognized by employers and trade societies . . . in the trade in the district where the work is carried out'. During the inter-war years in a series of Acts providing financial assistance to industries from the Public Exchequer, beginning with the British Sugar (Subsidy) Act, 1925, a 'Fair Wages Clause' was included, and strengthened as compared with the 1909 resolution. For example, the principle of compulsory arbitration was introduced to enforce the observance of the clause and to settle disputes of interpretation. In 1946 the House of Commons substantially amended the 1909 resolution to bring it in line with the changed circumstances resulting from the growth of the voluntary system. The main standard of fair wages became that established by representative collective agreements and by arbitration awards. Government contractors were compelled to observe 'fair' conditions of labour (not only wages and hours as before), to recognize the freedom of their workpeople to be members of trade unions, and to see that their sub-contractors also complied with the same conditions. Local authorities have similar fair wages clauses in their contracts.

Direct legal support of collective agreements came with the wartime Conditions of Employment and National Arbitration Order (familiarly known as Order 1305) in 1940. Part III of this Order made it obligatory for all employers to observe terms and conditions of employment not less favourable than those which had been settled by agreements made 'between organisations of employers and trade unions . . . representative respectively of substantial proportions of the employers and workers in the trade in the district in which the employer is engaged', or by the decisions of Joint Industrial Councils and similar bodies, or by arbitration awards. This meant that non-federated, as well as federated employers were compelled to comply with the terms of collective agreements. If they failed to do so, they could be reported by a trade union or employers' association operating in the industry to the Ministry of Labour, who could then refer the case to the National Arbitration Tribunal for an award, which was enforceable in a court of law by each worker and against each employer to whom it applied. This arrangement proved of great value to the trade unions in forcing those employers to bargain who had previously refused to do so;

and, since the initiative for enforcement lay in practice with the trade unions, it helped them in their organizing activities.

Before we consider the whole of the provisions of Order 1305, let us return to the other main purpose which has directed government intervention, that of helping to maintain industrial peace. After the First World War, under the Conciliation Act, 1896, and the Industrial Courts Act, 1919, the Minister of Labour was able to assist in the prevention and settlement of industrial disputes by the use of any of three methods: conciliation, voluntary arbitration, or special inquiry. And they are usually employed in that sequence.

The Ministry employs a staff of conciliation officers, whose job it is to help both parties to settle their differences if their advice or assistance is requested. Failing agreement the dispute can then be submitted, *with the consent of both parties*, to the Industrial Court, established by the 1919 Act, for an arbitration award. This costs them nothing apart from their own expenses. Despite its name the Industrial Court is no part of our judicial system, and its awards are not legally binding, although only on rare occasions have the parties refused to accept its findings. The Minister can also appoint single arbitrators or special *ad hoc* Boards of Arbitration if this course is likely to prove more acceptable. The third method, the appointment of a Court of Inquiry (or a less formal Committee of Investigation) is employed as a last resort and does not require the consent of the parties. It is primarily a means of informing Parliament and public opinion of the facts and underlying causes of a dispute. The recommendations of a Court of Inquiry cannot be enforced but they usually provide a basis for further negotiations and a settlement. During the inter-war years, 1920 to 1938 inclusive, 1,669 arbitration settlements were made by the Industrial Court and 315 by single arbitrators or boards of arbitration appointed by the Minister, as compared with 1,199 conciliation settlements reached under the Ministry's auspices. There were only twenty Courts of Inquiry and sixteen of these were held before 1926.

To meet the war-time need 'of preventing work being interrupted by trade disputes', Order 1305 superimposed a general system of compulsory arbitration on the various voluntary provisions for the settlement of disputes. Strikes and lockouts in connexion with trade disputes were prohibited with the one proviso

that they were legal if the Minister of Labour, having had the dispute reported to him, failed to take action to secure a settlement within three weeks. (The Americans call this a 'cooling-off' period.) The Order also established, as a final authority for the settlement of disputes, a National Arbitration Tribunal, normally consisting for the purposes of a particular case, of three appointed members (including the chairman) and two representative members, one from each of the trade unions' and employers' panels. The Tribunal was not intended to displace or weaken the accepted practices of collective bargaining or voluntary arbitration. Under the Order the Minister was obliged to see that any existing joint machinery suitable for settling the dispute was used before a case was referred to the N.A.T. Any awards or agreements made as a result of a reference by the Minister of Labour under the Order became legally binding and an implied term in the individual contract of employment of the employees to whom the awards or agreements applied. The trade unions first accepted this system of compulsory arbitration as a war-time necessity, but at the end of the war there was no strong demand for its withdrawal. The Trades Union Congress consented to its temporary retention in view of the country's continued economic difficulties.[1] By the end of 1950, from the time when the Order first came into force, 1,886 cases had been referred by the Minister to the National Arbitration Tribunal, 240 to arbitration under the Industrial Courts Act, and only 69 to existing joint machinery. Conciliation officers had helped to settle 1,666 cases.

Decline in industrial conflict

By the end of 1950, according to the Ministry of Labour's records, some 80 per cent. of the total employee population of Great Britain were covered either by voluntary or statutory systems of wage regulation.[2] The proportion of employees organized in trade unions is smaller, of course. In 1950, taking only those trade unionists resident in Great Britain (some unions have members overseas) it was about 43 per cent., 53 per cent. for male employees and 23 per cent. for female employees.

[1] Its eventual replacement by the Industrial Disputes Order (1376) in Aug. 1951 lies outside the period covered by this book.

[2] *Annual Report of the Ministry of Labour and National Service for 1950*, H.M.S.O., 1951, p. 116.

The growth of organization, together with the growing acceptance of methods of conciliation and arbitration by employers and trade unions, has naturally helped to bring about a better state of industrial relations, although the economic climate, especially the maintenance of full employment, has probably contributed more. The most familiar measure of good industrial relations—although admittedly a very inadequate one—is the extent of industrial conflict. The contrast between the total number of working days lost through industrial disputes in the United Kingdom after the two world wars is impressive: in the years 1946–50 about 9½ million days were lost as compared with 178 million in the years 1919–23. Not that Order 1305 prevented strikes from taking place either during the war or afterwards. In the ten-year period 1941–50 there were more than 17,000 stoppages of work, but nearly half of them lasted less than a day and most of them were local in character.

Nearly all these strikes were, strictly speaking, 'illegal'. And Order 1305 actually made it a criminal offence for a worker 'to take part' in an illegal strike, and for an employer to 'declare or take part in' an illegal lockout. But little attempt was made to enforce the law in this respect. During the war there were in all 109 cases of prosecution of workpeople (involving 6,281 individuals) and two of employers for taking part in illegal stoppages of work. After the war it was not until 1950 that the Attorney-General made use of his powers, when some of the leaders of a gas strike in north London were prosecuted. The threat of criminal prosecution (as has been implicitly recognized) is an ineffective and undesirable method of maintaining industrial peace: indeed it usually exacerbates the conflict.

The strikes were also, in most cases, 'unofficial', that is to say, they were not sanctioned or recognized officially by union headquarters. The causes of unofficial strikes have therefore aroused a good deal of public comment. They cannot be regarded only as a consequence of compulsory arbitration. The one occasion on which a Minister of Labour has ventured any information on the proportion of unofficial strikes was before the introduction of Order 1305. In 1937 he told the House of Commons that over half the strikes in the previous year (and possibly a much higher proportion) were unofficial.[1] Furthermore, the strikes which have taken

[1] *Hansard*, 1 July 1937.

place since 1945 have mainly been concentrated in particular industries, coal-mining, engineering and shipbuilding, and in transport (other than railways).[1] And even within this group of industries the dock strikes have been far and away the most dislocating and disturbing conflicts. This suggests that it would be wiser not to attempt any general explanation of unofficial strikes but to look for their causes in the circumstances of the industries in which they have been most prevalent.

Whatever may be the reasons for any particular dispute, however, at least it is clear that the social significance of strike action has changed since the twenties. This is due to those main trends in the development of the voluntary system already considered. National regulation and the acceptance of arbitration have tended to eliminate the strike as a bargaining weapon in union strategy, used on a national scale to advance their claims or to defend ground previously won. Instead, it has increasingly become a form of local protest by a group of workers within a union, either against the actions of the management in a particular establishment—failure, for example, to consult them about changes which are likely to affect their welfare—or, in some cases, against the decisions of their own union. Sometimes a minority of trade unionists may want to have their cake and eat it, to retain the advantages of national bargaining and agreements and yet to be free to resort to direct action in violation of agreements when they are personally dissatisfied. But that is not the whole of the story. No system of negotiations is perfect. When huge organizations are involved, as is frequently the case today, serious grievances affecting, perhaps, only a small number of workers may be neglected or dealt with too tardily. A spontaneous outburst of protest, even if contrary to the 'rules' is greatly to be preferred to smouldering resentment, since it calls attention to the need for change.

Workers' control and joint consultation

Trade unionism has been a movement of the workers aiming not only at their economic betterment but also at their exercising a greater measure of control over all the circumstances of their working lives. In a phrase of the Webbs, they have sought by

[1] See Kenneth Knowles, 'The Post-War Dock Strikes', *Political Quarterly*, July–Sept. 1951.

organization 'to regain collectively what has become individually impossible'. Collective bargaining has been but one method used to attain this end. Political action, either by direct pressure upon the Government or through the agency of the Labour Party, has been another. A further method which has come to the fore recently with nationalization and full employment is joint consultation.

Revolutionary syndicalism, of the type that once flourished in France, never gained much of a hold on the workers in this country, but the less sophisticated demand for 'workers' control' found many supporters among militant trade unionists in the period covered roughly by the first quarter of the present century. The failure of the General Strike in 1926 destroyed the influence of the gospel of 'direct action', which many syndicalists had preached for the achievement of their ends. But it did not lead to the abandonment of the idea that the workers, through their trade unions, should participate in the control of the industries in which they were employed. When, in the early thirties, the Trades Union Congress began to consider in practical terms the form of organization it wished to associate with the demand for nationalization, there was a violent clash of opinion on the question whether in nationalized industries the trade unions should be directly represented on the governing boards. By 1944, however, the issue appeared to be finally resolved. The T.U.C.'s *Report on Post-War Reconstruction*, accepted unanimously by Congress in that year, rejected direct representation, mainly on the grounds that it would hamper the unions' independence and conflict with the principle of public control. It advocated instead the formation of consultative councils at all levels of organization in the nationalized industries, through which the trade unions could exert their influence and co-operate on matters not regulated by collective bargaining. The subsequent experience with joint consultation in the post-war nationalized industries is dealt with elsewhere,[1] but it should be noted that there was a marked revival of the demand for direct representation on the part of a number of important trade unions in 1948, although the T.U.C. General Council continued to hold firmly to the line of the 1944 report, and carried a large majority at Congress with them.

Something like joint consultation was advocated by the Whitley Committee. It gave a list of topics which it considered suitable

[1] See Chapter XIX.

subjects of discussion by Joint Industrial Councils, and these included 'the better utilisation of the practical knowledge and experience of the workpeople', and 'improvements of processes, machinery and organisation and appropriate questions relating to management'. The term 'Whitleyism' was, in fact, associated mainly with this aspect of the committee's recommendations aimed at 'promoting industrial harmony and efficiency'. During the inter-war years the economic background of industrial relations did not favour co-operation between employers and trade unions on these lines. Outside of the Civil Service, where after many set-backs it enjoyed a limited success, joint consultation made little progress other than in a few individual firms where it was associated mainly with welfare activities and, more often than not, took place in a paternalistic atmosphere.

The Second World War led to the experiment with Joint Production Committees in the engineering industry—and their equivalent in building, coal-mining, and shipbuilding. They were certainly more successful than the ill-fated Works Committees proposed by the Whitley Committee. Their functions were limited to providing for an exchange of views on matters 'relating to production and increased efficiency' between management and representatives of the manual workers. But the agreements under which they were formed introduced one new and important principle, namely, that only trade unionists could be elected as the workers' representatives, although all employees could participate in the ballot. According to the war-time Ministry of Production, in July 1943, there were 4,069 J.P.C.s or similar bodies known to be operating in private firms in the engineering and allied industries, covering 2½ million workers, and a year later their number had increased to 4,565. With the ending of hostilities the majority of them, including some of the most promising, soon collapsed.

In January 1947 the Government raised with the National Joint Advisory Council to the Minister of Labour the question of reviving the practice of joint consultation at establishment level in privately owned industry. The Council agreed to recommend the setting up of joint consultative machinery, where it did not already exist, providing that it 'would be voluntary and advisory in character', and 'it would not deal with questions relating to terms and conditions of employment which are normally dealt with through the ordinary machinery of joint negotiation'. It was also left to

each industry to decide 'whether such machinery could best be established at the factory level or cover a wider area'. Inquiries made by the Ministry of Labour in fifty-four main industries showed that by the end of 1949 twenty-six had agreed to recommend the establishment of Joint Committees in factory or workshop—thirteen of these had drawn up a model constitution for such committees—and seventeen had decided that initiative should be left to individual firms and workpeople. A further eight industries were of the opinion that the existing joint machinery was adequate for dealing with matters requiring joint consultation, and the remaining three had not yet reached any conclusion.

In most large firms there is some provision for joint consultation but progress has been slow in extending the practice to the greater part of industry. It cannot be said that the employers' associations or the trade unions have put much drive in the campaign, in most cases the initiative has been left to both sides within the individual establishments. The main impetus has come from the Government. The Regional Officers of the Ministry of Labour and the Regional Boards for Industry were asked to take an active interest in the matter and help in the formation of Joint Consultative Committees where there was a desire on both sides to form them and suitable agreements existed.

The strict separation of joint consultation from collective bargaining is difficult to maintain in practice, certainly within individual establishments. Moreover the attempt to do so invariably destroys the workers' interest in it. The really successful experiments in joint consultation appear to have developed in firms where the close connexion between the subject matter of consultation and negotiation has been recognized, and the same or similar committees have been used for both purposes.[1] This is not surprising. Industrial relations are not confined to the settlement of wages and those working conditions which can be regulated by collective agreements. A factory is not only a place where goods are produced and incomes distributed, it is a community where all kinds of human relationships are shaped. With the disappearance of the grosser forms of exploitation it becomes increasingly important that the less tangible, or rather the less measurable, non-economic relations between employers and employees should also be regu-

[1] See, for example, Sir Charles Renold, *Joint Consultation over Thirty Years*, 1950.

lated or adjusted on a basis of equality. Whether this can be achieved through the method of joint consultation, at least in the form in which it has so far been envisaged, must be regarded as an open problem, but one likely to demand a great deal of attention during the second half of the present century.

CHAPTER VII

PRE-WAR AND WAR-TIME CONTROLS

By P. J. D. WILES

1. THE extent and methods of government intervention in this country are due to a succession of concrete problems which arose more or less haphazard in the course of history and clamoured for *ad hoc* solution. Indeed the original aims of any given intervention are not always its present *raison d'etre*. Nor was there ever absolute *laissez-faire* any more than there ever existed a document called the social contract, and the explanation of each several intervention must be sought in history. Moreover economic theory has been, like party politics, a secondary matter, and the great and fundamental problem of the economic principles textbook, the allocation of scarce resources between competing ends, has been (in peacetime) seldom more than implicitly a problem for state intervention to solve, and often not even that. Unemployment, depressed areas, the balance of payments, inflation: these are separate and equally important problems, though the third often and the fourth invariably raise classical scarcity issues too.

Economic theory and party politics have only mattered as providing a general bias for or against intervention. In the days of Adam Smith, Ricardo, and Senior the economist not only established a climate favourable to *laissez-faire* but also greatly influenced the details of legislation. The Poor Law and the Bank Act were largely due to contemporary economists. But in the next century (say 1850–1940) *laissez-faire* reached its height and receded again despite the general bias in its favour which economists continued to provide. It is only since 1940, since, that is, the theories of employment and imperfect competition have been digested by economists, that their influence on practical affairs has again been considerable. Indeed, only since then have they had much of relevance to say. The influence of party politics has been, since 1850, greater but not enormous. First, the poor have received the vote. Then the party most attached to economic freedom has declined and one serving the interests of the industrial working class has taken its place. But even after this the actual introduction of controls has

hardly ever been doctrinaire. The move to the political left has shown itself rather in a more willing and less critical application of controls already agreed on, or their retention in different circumstances.

The principal cause of the growth of controls, as of the general growth in state power, has of course been *war*. It is a cliché that war engrosses more human sacrifice and attention than any other activity, and is the greatest agent of social and economic change, but a cliché that like many others is usually forgotten. These introductory paragraphs cannot end more suitably than with this reminder.

2. There was never complete absence of state intervention. At the height of *laissez-faire* in the 1860's the Bank of England controlled the short term rate of interest through the bank rate. The Cabinet recognized ultimate responsibility for the working of the Bank Act, 1844. Parliament itself controlled above all the hours and conditions of work in factories and mines; also the routes taken and to a certain extent the rates charged by railways and canals. The State owned the Post Office and a few ordnance factories and naval dockyards. There were municipal banks, ports, and water and gas supplies. The roads were under either local or central government (though much more under the former than today). There was a poor law. By 1913 the tide had set in strongly towards control: the Wages Board controlled wages in 'sweated' trades, the Railways and Canal Commission controlled railway and canal rates, Parliament controlled the profits and/or prices of gas, water, and electricity companies, the Post Office had taken over the telegraph system, and municipal enterprise, enormously increased in its old fields, now included also trams, telephones, and electricity. The social services had begun with old age pensions and health and unemployment insurance. The State had intervened by statute in the London docks in 1908, forcibly re-arranging the chaos into the Port of London Authority.

But all these measures were partial. Of overall planning there was nothing at all to be seen. The State had no responsibility for the level of prices or of employment—indeed it was not fully understood how to control the latter. The budget must, except in times of war, be balanced, as the Government was merely one business amongst others. Trade, too, is still free in that there were a few revenue tariffs but no protective tariffs

at all.[1] The Gold Standard made an independent monetary policy impossible, but this was in any case not desired.

3. When the First World War began the whole of the political economy of modern war had yet to be thought out. Apart from sheer ignorance and inexperience there were many intolerable delays in imposing controls, and much resistance on doctrinal grounds of *laissez-faire*. But by 1918 very great changes had been wrought, immensely increasing the scope of the State. As the Second World War will be described at more length it will suffice here to say that every form of control introduced in the First World War was repeated in the Second, but that of the expedients enumerated in Section 8 the following were not used in 1914–18: cheap money, forced loans from the public, exchange control, points rationing, the concentration of civilian industries, direction of labour.

However, most controls were on an altogether smaller scale. Furthermore, there was no overall financial plan, no concept of the inflationary gap to be filled. But that is all: clearly the two wars have the strongest family resemblance, and the later was merely a technical improvement on the earlier, in which nearly all the pioneering work had been done.

The First World War revolutionized not only the economic duties of the State, but the strength of the labour movement, the position of women, the worlds of art, literature, and political ideas. These changes proved to be irreversible; indeed with the exception of the first it was hardly anyone's conscious policy to reverse them. But the structure of state control could be, and was, dismantled after the war by political fiat, and later the more difficult feat of re-establishing the Gold Standard was also performed. It is of the utmost importance for us to understand the contrasts between 1919, when nearly all controls were abolished,[2] and 1945,

[1] Unless we count the Colonial Stock Act, 1900, as protective: it made colonial stocks of sufficient merit trustee securities, but this privilege was denied to foreign bonds of equal or greater merit. This was then a preferential tariff against non-Empire bonds.

[2] The Coalition Government, however, nurtured many reconstruction plans in 1918–19 which, owing to public hostility, it did not dare to put into effect (cf. Tawney, *Economic History Review*, 1943, pp. 10–11, and Beveridge, *British Food Control* (Carnegie Economic and Social Histories of the War), chs. 13, 14). It did, nevertheless, use parts of the war administrative machine to defeat the strikes of the Triple Alliance in 1919, and this experience in turn was used during the General Strike, 1926.

when nearly all controls were kept on. First, and easily the most important, there was a right-wing political party in power in 1919 and a left-wing one in 1945. The politically dominant class cried 'back to normalcy' in the one case and 'let us face the future' in the other. The economic golden age in the minds of one ruling class was in 1913; the other saw it in 1950. Both times, moreover, the war-time controls were thought of as 'socialism'. In 1919, therefore, they were simply abolished, and in 1945 they were carried over wholesale into the somewhat different problems of peace. For, secondly, war differs essentially from peace in this, that the community has but one economic end in war, namely, to make munitions, whereas it has infinitely many in peace, or at least as many as there are private individuals. Bellicose patriotism, too, will submit to restrictions that a cooler temper will evade. The war-time case for planning is therefore quite irrelevant to peace, and this point was much emphasized in 1919. But in 1945 certain common aims of the whole community in peace-time were also recognized: for instance, an increased supply of houses and edible fats was demanded, and the phrase 'as an operation of war' used in this connexion. Nevertheless, there were other reasons so strong that a right-wing government would hardly have done differently in 1945. For the difficulties requiring collective attack were much greater and much more clearly seen. Not only was there the experience of 1919 to go by, there was also much greater statistical and theoretical knowledge on the part of practical economists in the civil service. Facts about the world food shortage and the balance of payments were known that could not possibly have been known in 1919, and they cried out for state intervention since they were much more serious than in 1919 (the aggravating factors in 1945 were chiefly the loss of foreign investments—we were now debtors on capital account—and the destruction of our South-east Asian empire). Thirdly, the First World War and the unemployment after it had themselves taught a lesson: the former that economic laws could be mastered and the latter that *laissez-faire* did not necessarily make for the best possible situation. Finally, controls and administrative expenditure upon them are always more acceptable while prices rise than when they fall. The tax burden sits lightly upon prosperity, the budget is easily balanced anyhow, the producers' minimum price guarantees (which were then more important than cost-of-living subsidies) involve no expenditure, and

genuine scarcities remain which require to be administered.[1] But prices fell in 1920, and it was in 1920 that the public howl for decontrol proved irresistible. Nor was the Government, threatened with losses on its coal and wheat price guarantees, unresponsive (see below). The same might have happened even in the altered climate of 1946 had prices fallen then.

The importance of the First World War, then, was twofold. First, it shifted the climate of opinion, already changing before 1914, still further in favour of government intervention. To this shift can be attributed the new sort of control, so much more drastic than the pre-1913 kind, introduced in the late twenties and early thirties. Secondly, it provided an infinite array of precedents, lying to hand in the Carnegie histories and the files and war diaries of the Ministries, for use in the Second World War.

4. Peace began, then, with a reversion to the pre-war state of affairs. The old drift away from *laissez-faire* towards municipal ownership and public corporations, which had somewhat slackened since 1900, now continued at a quickened pace. We may mention, without discussion, the public corporations founded between 1919 and 1939. They were: the Forestry Commission, 1919; the B.B.C., 1926; the Central Electricity Board, 1926; the London Passenger Transport Board, 1933. All four showed an admirably undoctrinaire approach towards public corporations, far removed from the extreme timidity of the nineteenth century or the headlong dogmatism of 1945. But certain new problems arose from the *liquidation of war-time controls*. These were:

(*a*) *Protection*. Before 1915 there were only revenue tariffs with countervailing excises on the home products. In 1915 Mr. McKenna imposed a few duties on foreign mechanical consumer goods without countervailing excise. These, the first swallows of the new protectionist summer, had the 'sole' purpose of conserving shipping space and foreign exchange. Protectionist sentiment, however, kept them going for the whole period.[2]

From about 1916 to 1921 there was much talk of strategic protectionism and the strangulation of German trade. But little came of it. A few goods essential for the war and normally imported from

[1] The administration of protective schemes in slumps is of course very much cheaper than the administration of scarcity in booms. Moreover the former can be much more generally left to private enterprise.

[2] Except for 1924 when Mr. Snowden suspended them.

Germany and Austria-Hungary had had during the war to be manufactured at home. These were given protection by the Dyestuffs (Import Regulation Act), 1920, which lasted the whole period, and by the Safeguarding of Industries Act, 1921, for five years (renewed 1925–30). This, then, was a mixture of strategic and infant industry protectionism. We may also mention the element of Imperial Preference inserted into the McKenna duties and the revenue tariffs in 1919 and into the Safeguarding Act from its inception. Imperial Preference is, or appears to be, not purely selfish. It stems from large views, and favours others as well as the home producer. It tightens the bonds of empire politically and psychologically. Without this sugaring the victory of protectionism would have been much slower.

(*b*) *Railways.* The 120 pre-war railway companies had been operated as a single unit by the Government during the war. They were amalgamated into four companies by the Railways Act of 1921. The strongest reason for this was undoubtedly the administrative economies that government management had shown. A single company would have been 'nationalization', and was therefore out of the question; but it is surprising that this important act of reorganization by statute is not more often quoted as a forerunner of nationalization. For it resembled very closely the better known measure in the Port of London.

(*c*) *Coal* is a rebarbative subject for a British government. Passions in this industry are so strong that all outsiders burn their fingers. From a long tale of tinkering we shall select only the measures that had practical effect. Taken over like the railways during the war, the mines were nevertheless not run as a single unit, or amalgamated even locally. They were hastily returned to private ownership in 1919. Nationalization was much more passionately urged by a still stronger trade union than in the railway case, but there was not even a consolidation into larger and more workable units. Nevertheless, the period of state control did leave some traces behind it. The Sankey Commission was set up in 1919. It reported by a majority in favour of nationalization, but nothing came of it. All the miners got was a Seven Hours Act (1919), and a welfare fund under the Mining Industry Act, 1920. The government guarantee to profits (which was the obverse of a high excess profits duty) was withdrawn as prices began to fall in 1921, several months before the agreed time. The industry was in perpetual

doldrums after 1924 owing to a structural shrinkage of demand and uniquely bad labour relations. There were subsidies, especially in 1925–6, which enabled wages to be kept up after the return to gold and thus postponed the strike until the latter year. A statutory cartel for regulating output was the only operative part of the Coal Act, 1930; and coal royalties were nationalized by the Coal Act, 1938. For the rest, all attempts to amalgamate pits, to close marginal pits, to hasten investment, or to improve industrial relations failed miserably, chiefly for lack of compulsory powers.

(*d*) Apart from coal, *agriculture* is a hardy perennial, demanding nevertheless, come rain come drought, irrigation from Whitehall. Enterprises are very small in agriculture, so that labour and capital understand each other better and present on the whole a more united front. The trade is highly localized as regards constituencies, sharing indeed with the miners' union the only modern pocket boroughs. It has many times the normal allowance of mystique and sentimental pull, both on its practitioners and on outsiders. It had just been proved vitally necessary in periods of submarine warfare, so that the gap between the required war-time and peace-time outputs was uniquely great. Finally, it has a secular tendency to be poor, for it is precisely from agriculture that men hive off to participate in the fruits of the industrial revolution. Agriculture was thus almost the only field in which a genuine effort was made to continue war-time controls and to pursue a conscious policy. The Agriculture Act, 1920, continued the guarantee of wheat and oats prices and the Wages Board which had both begun with the Corn Production Act of 1917. But prices fell catastrophically and the guarantee looked like being as expensive as the guarantee of coal profits. In 1921 it was withdrawn as prices began to fall (Corn Production Acts, Repeal Act, 1921). The breach of faith was less blatant than in the coal case, as some compensation was paid. In particular the Wages Board was abolished. The Repeal Act thus destroyed the whole post-war structure of controls, and left intact only certain provisions of the 1920 Act in favour of tenants *vis-à vis* landlords.

To continue the story until 1931, there were *Smallholdings* Acts in 1919 and 1926, by which it is the duty of county councils to acquire and sell or let smallholdings, and of the councils and the Ministry to subsidize them. Socially a beautiful dream, politically a sacred cow, and economically a running sore, smallholdings will

never succeed until the British farmer learns co-operation. The *Forestry* Commission, founded in 1919, was provided with public funds to buy or lease land for afforestation and to encourage it indirectly. The excuse for this subsidy was good, as there is a strategic need for home timber and a permanent shortage of private capital in a field where returns are so distant; but governments, as we have seen, also live in the short run, and the supply of funds year by year was both erratic and insufficient. The *sugar beet* industry was very heavily subsidized. Established by private but patriotic enterprise in 1911, it was expanded curiously little during the war and had to wait until 1924 for its fiscal apotheosis. This was a year of low cane sugar prices and heavy imports. The subsidy was granted for ten years on strategic and infant industry grounds. It is with us still. Finally, the Agricultural Credit Act, 1928, provided for cheap and in some respects subsidized loans to farmers.

(*e*) *Drink.* The nationalized public houses of Carlisle and Cromarty Firth remained in public hands, and the regulation of drinking hours continued. This is clearly a political exception to normal economic liberalism. *Laissez-faire* in drink is about as welcome to the British as *laissez-faire* in sex. But the case illustrates admirably the use that politicians make in post-war eras of war-time powers when it suits them.

(*f*) *Labour.* Officially sponsored collective bargaining machinery —the Joint Industrial Councils on the lines of the Whitley report —was more a reconstruction than a war-time development. It was thus one of the fruits of war idealism, not war necessity, and with agriculture represents the only piece of government-planned reconstruction to be put into practice. Much of it nevertheless collapsed owing to the employers' hostility, and nation-wide gave way to regional bargaining. Owing to a number of resounding defeats the trade unions lost much strength. Pre-war trade practices, however, were restored with very little difficulty, and not a few Joint Industrial Councils survived. So also, of course, did the entirely private collective bargaining machinery which the major industries had long ago built up for themselves. An Industrial Court was set up in 1919 to arbitrate at the request of both parties to a labour dispute. Labour thus emerged stronger *vis-à-vis* capital as a result of the war.

(*g*) *Rents.* It is of the nature of modern state planning, with its

egalitarian and inflationary bias, to depress the real value of rents. First, rents once frozen in money terms, the State never admits that it has depreciated money to the extent that it in fact has. Secondly, the rule holds, not without many exceptions, that rent receivers are few and rich while rent payers are many and poor. Thirdly, a reduction in rent has only a long-term deleterious effect on supply by discouraging capital; its connexion with bricklayers' wages is remote and difficult to see; while reductions in other factor payments have the short-run disadvantage of causing the withdrawal of more mobile factors. But governments live in the short run. So the controlled rent lags very far indeed behind the rise in landlords' costs and the general level of prices.

In agriculture scarcely any legal restriction was placed upon rents in either world war. Gross rents suffered only—but severely—from the rise in prices and the social difficulties of raising the rent to a sitting tenant. Net rents even gained, as maintenance and repairs had to be cut down or postponed. But the 1920 Agriculture Act increased compensation for, and the difficulty of, tenant eviction. In housing, however, the rents of small *unfurnished* houses were frozen by the Increase of Rent and Mortgage Interest (War Restrictions) Act, 1915, at the August 1914 level or the level of the first let if subsequent to that. Rents have never been free since. The remaining Acts until 1945 were:

1919 Extension of control to larger houses (base year 1918). Ten per cent. increase in all controlled rents permitted.

1920 Further extension to still larger houses. Forty per cent. increase over base year permitted, and the inclusion of certain costs. Further restrictions on landlords' rights of distress and possession. New houses exempted.

1923 All houses returning to landlord with vacant possession decontrolled.

1933 All large houses decontrolled. Medium houses remain under 1923 Act. Small houses cease to be decontrollable to all.

1939 Rents of all houses not subject to old control and below a certain size frozen at level of 1 September 1939. Rents of new houses frozen at level of first let.

Houses for sale have never been controlled, nor the rents of new

houses until 1939. Furnished lets were never seriously controlled, except in Scotland in the Second World War.

(*h*) The problem of good *working-class housing* is that a few genuinely cannot afford it, and many refuse to give up their luxuries to obtain it, but all are prepared to vote for it. As the houses deteriorate, social habits are degraded by a vicious circle and still fewer will effect the economies in personal consumption necessary to buy a better house. Before the war local authorities had provided a few houses, all unsubsidized even in the case of direct building. The Housing, Town Planning, &c. Act, 1919, arose out of the 'Homes fit for Heroes' promise. It compelled local authorities to provide working-class houses and subsidize them out of the rates. A (somewhat larger, as it turned out) Exchequer subsidy was added. These rates of subsidy were modified in 1923, 1924, and 1927, and reduced to zero by the Act of 1933; this was the time of economy at all costs. The Housing Act, 1930, however, remained in force, and was even strengthened. This was a slum clearance measure, and from 1930 the emphasis shifts from new houses to a modernization by scrapping and replacing that resembles contemporary rationalization schemes in industry. This Act *enabled* local authorities to clear or improve unhealthy areas and enforce repairs of unhealthy houses; it required them to rehouse those displaced by clearance, and provided for exchequer subsidies per person rehoused, in place of the normal exchequer subsidy to the house. The Housing Act, 1935, made slum clearance a *duty* of the local authority, defined a slum in terms of overcrowding, which was made a penal offence, and re-extended the Exchequer subsidy beyond the bounds of slum clearance.

In retrospect housing was the great achievement of the inter-war period. Cheap money (from 1932) and the later housing acts did much to redeem, by private and public enterprise, the 'Homes fit for Heroes' promise. The rate of over 300,000 houses per annum in the late thirties has never since been approached.

5. *The Twenties* were the last period in which *laissez-faire* was official policy. Structural unemployment was heavy throughout, and aggravated by the return to gold at the old parity in 1925. This act set the seal, it was thought, on post-war reconstruction. It certainly caused the coal strike—so heavily hit were our coal exports—and therefore also the general strike. Apart from measures mentioned above, a quota was established laying down the proportion

of British *films* to be shown by a cinema (Cinematograph Films Act, 1928). This was cultural protectionism. Further, *exports* were encouraged by permitting the Board of Trade to guarantee the funds ventured upon them (Overseas Trade (Credits and Insurance) Act, 1920). This privilege was at first confined to exports to the new states in eastern Europe, which required to import on credit, but subsequent Acts included exports to the Empire, and generally enlarged the scheme.

6. All this, however, could have plausibly been represented as isolated bubbles in the wake of war. It is from 1931 on that *laissez-faire* really disappears. There were two foreign examples of planning at about this time that had some influence upon us: the first Soviet Five-Year Plan (1929), and the U.S. New Deal (1933). But the slump itself was the main cause. If war and inflation are the greatest stimulants of collectivism, *depression* comes second. Few governments interfere in peace-time with what is prosperous and well managed, but the inefficient and the needy usually receive, and always demand, attention. Just as all three Chartist petitions were presented in slumps, so the origin of modern British protectionism and monopoly lies in the Great Depression of 1873–96 and their victory in the still greater depression of 1929–34.

(*a*) The principal newcomer to the field of controls is *finance*. Finance is the ark of the covenant. The abandonment of financial *laissez-faire* is at once the symptom and the cause of the end of all *laissez-faire*. The British financial system is very like the British constitution. It is unwritten, yet it has the force of law. It reconciles tradition with adaptability. Its theoretical basis is exiguous, out of date, and even wrong; its practical working is admirable. It works by the social homogeneity of its participants, through the 'old boy net'. Persuasion replaces command. The maximization of profit plays no part, but the path of civic virtue is never found to be incompatible with *some* profit. We shall therefore treat as government controls what are in strictness but a miraculous consilience of public and private policy.

We were forced off gold in 1931 when foreigners liquidated their quick sterling assets, which much exceeded those that we in our turn could call in. No political party, no economic theorist, wished to go off gold. Country and government yielded only to the inexorable drain on the Treasury, yet the modern era of planning really begins with this event. For finance was now no longer rigidly tied

to the external world, and it was possible (though not necessary) to divorce policy at home, especially interest rates, from policy towards foreigners. The *rate of exchange* was controlled by the Exchange Equalization Account (set up in 1932), sometimes in agreement with Paris and New York, sometimes not. This control was not of course administrative: it was merely price leadership by the enormously preponderant firm in the market. The *long-term rate of interest* was lowered in 1932 for the conversion of the 5 per cent. War Loan. This was the first cheap money policy in this country since the usury laws.[1] But little as it resembled these it was not Keynesian either, for its aim was to balance the budget by a profitable conversion, and its chief method was to choke off new issues, and therefore ultimately investment. But cheap money persisted after the great conversion, and private enterprise, especially housing, benefited greatly from it. Moreover, many of the later cheap money techniques were now first tried out, including psychological warfare on the public, the use of departmental funds, and even a modest increase in the quantity of money. The appeal to private enterprise not to queer the Government's pitch with its own new issues was of course lifted after the conversion, but the Treasury continued to control overseas and municipal issues—the former entirely by persuasion and without any legal backing. With the gold reserve in the hands of the Exchange Equalization Account, and no obligation to pay it away, the *bank rate* ceased to be a weapon of control. It remained at 2 per cent. from June 1932 until November 1951, with a trifling interval at the beginning of the Second World War. This cheapness of money, then, was unrelated to foreign interest rates. The foundation stone of government planning, monetary independence, had been laid. But there was no use of *fiscal* as opposed to financial policy—budget surpluses and deficits—until 1939.

(*b*) *Protection.* We were forced off gold but we did not have to adopt protection. There was little of it, as we have seen, before 1931. General elections had recently been lost through advocating it. Free trade was still a religion. But unemployment was intractable, and men would try anything in their desperation. There was also a vague and wholly illogical feeling that going off gold constituted a dreadful crisis, requiring bitter medicine. More logically, though quite as wrongly, increased revenue was required to cover

[1] In point of fact there still is a usury law: the Moneylenders' Act, 1927.

the budget deficit. Protection, moreover, which brings the capitalist profits without restrictions, is the preferred tool of Conservative planning, and the Conservatives were in power. Quite suddenly, then, quite easily, and altogether unmourned, free trade went the way of the rest of *laissez-faire*.

The principal act was the Import Duties Act, 1932. It originated in a proposal of Keynes for a temporary 10 per cent. revenue tariff on all imports coupled with a 10 per cent. subsidy to exports; an essentially free trade proposal to improve our balance of payments without devaluation. But foreigners would never have tolerated the subsidy, and the act itself was both less logical and more practical than the proposal. It laid a 10 per cent. *ad valorem* duty on all non-Empire goods. Many adjustments, chiefly upwards, were made by regulation, the commodities specially favoured being steel and horticultural products. Then there was a levy on non-imperial imported wheat, the proceeds of which went to subsidize home wheat (Wheat Act, 1932, repealed in 1939 owing to the Anglo-American Trade Agreement of the previous year). There were also quotas, with imperial preference, for bacon, other meat, and dairy products (under the Agricultural Marketing Act, 1933, and the Livestock Act, 1937); quotas without preference (the Empire not being concerned) for sea-fish imports (Sea Fishing Industry Act, 1933); and general import licensing, without quotas, for potatoes (under the Agricultural Marketing Act). Finally, the beet sugar subsidy was continued indefinitely after the original ten-year period (Sugar Industry (Reorganization) Act, 1936).

Note that for the first time quotas appear alongside tariffs. There was no exchange control until 1939.

From small beginnings in 1919 *imperial preference* burgeoned enormously with the Import Duties Act, as shown above. Previously many Empire countries granted Britain preference though receiving none in return (the original idea had been that this preference was in exchange for the Colonial Stock Act, 1900, and the free protection of the British fleet). Our imperial preference was systematized and strengthened at the Ottawa Conference later on in 1932, and by the consequential Ottawa Agreements Act. The control of overseas issues on the Stock Exchange, mentioned above, also embodied a kind of imperial preference in that foreign issues were nearly forbidden, but Empire and later Sterling Area issues were put on a par with home issues. The *Sterling Area*, again,

emerging from the collapse of the gold standard, created a certain financial preference through custom and convenience. This anomalous and beneficent system, whereby the Treasury influences the financial transactions of other countries, some not even in the Empire,[1] is outside our scope. But it is another example of the spread of government intervention after 1931.

The motives for all this preference were political, though a great many muddled economic arguments were also used. The genuine economic argument, that Empire countries could now mutually inflate and raise employment without a dollar payments crisis, was not appreciated. Indeed the whole of our movement towards protection was based not on modern Keynesian arguments, which have merely been used to defend it *post factum*, but on those selfsame crude 'fallacies of protection' exploded by Cobden and Bright. However, imperial preference has indeed mitigated our dollar shortage.

(*c*) *Bilateralism* became a marked feature of our foreign trade policy, and brought with it a great increase in state activity. The Government bargained to expand our exports, chiefly of coal, and to diminish our imports, chiefly of agricultural produce. Apart from the Anglo-American agreement, 1938, and some of the post-Ottawa agreements with the Dominions, none of these agreements resulted in freer trade: on the contrary they were concerned with ever higher preferences. Nor, like the German barter agreements,[2] did any of them create trade that would not otherwise have taken place: on the contrary by obtaining for ourselves preference in certain markets they caused our thwarted competitors to drive us out of other markets, and they restricted, not expanded, imports. What we gained in certain countries, then, we probably lost in others, but the chief losers were Argentina and Denmark, which were in a very weak bargaining position.

(*d*) The Government took a great interest in *international commodity schemes*. This policy had begun immediately after the war on strategic grounds as a way of assuring important materials in time of war. The Stevenson rubber scheme (1922–8) was a failure though supported by the Government. But with more success the Government obtained direct representation in the British Metals Corporation (non-ferrous metals), and supported in various parts

[1] Though these left it on the outbreak of war.

[2] Cf. Mandelbaum in the *Economics of Full Employment* (O.U. Institute of Statistics, 1944).

of the world the Anglo-Persian (or Anglo-Iranian) Oil Company, of which it had become an important shareholder in 1914.

In the slump the strategic element faded out completely, and the sole aim was to restrict production and raise prices. There was direct government participation in the International Tin Committee, 1931, and the International Rubber Regulation Committee, 1934; and heavy support of the British Iron and Steel Federation in its negotiations with the Continental Steel Cartel, which it joined on favourable terms in 1935.

(*e*) *Agriculture* easily maintained its lead as the most legislated, most protected, most subsidized, and least taxed[1] industry. Compared with the town-biased *laissez-faire* of 1846–1913, the State went through a complete volte-face. As co-operation and other forms of marketing were much more advanced abroad, the Labour Government tried to encourage progress in these fields at home by permitting two-thirds of the farmers in any branch of agriculture to set up a board, to which the rest would be compelled to belong, and which would reorganize the marketing and grading of the product (Agricultural Marketing Act, 1931). But no one ever supports a monopoly which threatens to increase his efficiency unless a quite excessive *quid pro quo* is offered, and this is a general lesson about rationalization schemes which the thirties taught us. In this case the enabling act hung fire until the National Government promised protection to farmers forming such compulsory boards (Agricultural Marketing Act, 1933). No further protection than the 10 per cent. already granted under the Import Duties Act, 1932, was, it was implied, otherwise obtainable. Eight boards were eventually formed—milk (4), hops, potatoes, bacon, and pigs—of which the first seven survived. They duly obtained the promised protection, raised prices at home,[2] and effected few improvements in marketing, though this was their ostensible *raison d'être*.

Moreover, protection was widely granted outside the Marketing Act. The Wheat Act, already mentioned, had preceded it. Bilateral trade treaties secured quotas favourable to home producers; high tariffs were granted, as we have seen, to horticulture under the Import Duties Act; a subsidy was given on fat cattle (Livestock

[1] Derated in part, 1923; completely, 1929. Sundry special allowances as to income tax and death duties.

[2] By various methods. The hops and potatoes boards restricted acreage, the potatoes board restricted also the size of the individual potato permitted to be sold, the other boards raised the price directly.

Industry Act, 1937); and on oats, barley, and fat sheep (Agricultural Development Act, 1939). This last act was remarkable in being not merely protective: it also encouraged technical progress directly by subsidizing the ploughing up of grassland and permitting the Ministers concerned to buy agricultural machinery.

Yet despite all these artificial aids the depression of agriculture was so great that farmers had still good reason to complain of their poverty in 1939. The 'feather-bed' was made, but it did not become comfortable until the Second World War.

(*f*) In *other industries* the problem was to raise prices and to eliminate the least efficient surplus capacity, or 'rationalize'. The only industries to do both had no government assistance—shipbuilding and flour-milling achieved their end through cartels financed by a levy on the industry, which bought up and scrapped surplus capacity.[1] For the rest output was reduced and prices were raised, but rationalization, the fundamental problem, was untouched, as the marginal producers always demanded quite excessive compensation for ceasing to operate. The steel industry, like the farmers, had its cake and ate it too. It promised rationalization in return for protection, received the latter and never delivered the former.

With coal we have already dealt. The statutory cartel was a typical measure of the thirties. Cotton was a hardly more hopeful case. In 1934 the voluntary collective bargaining machinery in the weaving section broke down, and the Cotton Manufacturing Industry (Temporary Provisions) Act was set up what was in effect a Trade Board, though the employers were in this case in favour of the scheme. In 1936, after infinite travail and many false starts, a scheme for eliminating surplus spinning capacity proved satisfactory to the majority of spinners. But in so individualistic an industry it had to have the support of legislation. By the Cotton Industry Reorganization Act a Spindles Board was set up, financed by a levy on spinners, which bought up and scrapped many surplus spindles. Finally, another Cotton Industry Act established in 1940 the Cotton Board with the functions: to stimulate research and exports; to collect information; to 'act as a negotiating body on any

[1] In the case of shipping this process did eventually receive a government subsidy (British Shipping Act, 1935). By this same act, too, tramp owners were subsidised in return for laying up a proportion of their tonnage. These subsidies were also defensive, i.e. their object was to countervail foreign shipping subsidies.

matters affecting the industry'. This became the model for the post-war development councils.

(*g*) Something, but not much, was at length done about *depressed areas*. These were areas heavily reliant on single industries which happened to be structually depressed. Many had been suffering from high unemployment since the early twenties. By the Special Areas (Development and Improvement) Act, 1935, two Commissioners were appointed, one for West Monmouth and Glamorgan (coal, steel, iron ore),[1] Tyneside and Durham (coal, shipbuilding), West Cumberland (coal, shipbuilding); and one for Ayr, Lanark, Renfrew, and Dumbarton, excluding Glasgow (shipbuilding, coal).

Measures taken included: retraining of the unemployed and their assisted transference to other areas, establishment of subsidized trading estates, subsidized settlement on the land, preferential allocation of government contracts, 'encouragement' of incoming foreign firms to settle in these areas.

Acts of 1936 and 1937 gave or lent more money, 'old boy' influence was exercised to retain a few large firms intending to move away, and some private entrepreneurs co-operated of their own free will. But the money was grossly insufficient, and there was no compulsion at all. Moreover, the transferred and retrained workers could not find work as unemployment was so heavy everywhere; so they drifted back to their homes where they could be unemployed in more comfort. Unemployment in the special areas continued to be twice the average rate for the country as before, so the acts may justly be called a failure.

(*h*) *Town and country planning* now made a beginning, but is an almost negligible subject within the period (in 1932 0·13 per cent., in 1942 3·0 per cent. of the acreage of Great Britain was under an operative planning scheme). Planning was devolved on to boroughs, U.D.C.s. and R.D.C.s. Only the permissive parts of the acts, of which the first was dated 1909 and the most important 1932, were ever operative. But the Restriction of Ribbon Development Act, 1935, was not merely permissive: it actually forbade building along classified roads *tout court*, and is therefore the most considerable statutory advance in the period.

7. The inter-war period lacked a relevant economic theory. With no conception of budget deficits, national income, or effective demand, governments faced with deflation and unemployment

[1] The depressed industries are given in brackets.

could only flounder. Public works were urged by the Liberal Party and by Sir Oswald Mosley on the Labour benches, but since these were to be paid for out of taxation they could hardly have helped. The remedies actually adopted were worse. Each monopoly, each tariff, each statutory restriction simply shifted the burden of unemployment and unprofitability, preferably of course onto some foreigner; the country of Peel and Gladstone played the fashionable game of international beggar-my-neighbour[1] without compunction. Even within the nation there was no concept of the public interest, and therefore no criterion for dealing with vested private interests. It is natural that many of these should be a bar to progress, and progress demands their compulsory removal. The reconciliation of this demand with individual freedom and the rule of law is a difficult problem, but the twenties and thirties did not try to solve it, simply making individual freedom an excuse for inaction.[2] But what is wrong with inaction if no useful action can be suggested? For instance, it is often said that interests, such as the marginal spinning-mills and coal-mines, which should have been bought out at a valuation were allowed to hold up the community for ransom; and that privileges, such as the tariffs on food and steel, were granted in return for undertakings never fulfilled. These accusations are true without being serious. For to buy out marginal mines or rationalize the steel industry causes unemployment, while output quotas and protection raise prices and stave off bankruptcy. Behind the vested interests of capitalism stands the vested interest of the worker in employment. The successful and efficient rationalization of shipbuilding was the hated cause of the Jarrow plague spot. So long as economists and the Treasury were wedded to Say's Law *laissez-faire* was as good as planning, vested interests were no more wrong than right, and blame is inappropriate. We may, however, fairly complain that some government intervention was so lacking in the most elementary logic as to be indefensible by any standard.[3]

[1] For instance, the proposals for a low tariff region in Scandinavia and the Low Countries were blasted by Britain's insistence on her most-favoured-nation rights. But imperial preference had already violated the M.-F.-N. rights of foreigners.

[2] The Railway Act, 1921, the London Passenger Transport Act, 1933, the Housing Act, 1935, the Restriction of Ribbon Development Act, 1935, and the Coal Act, 1938, were perhaps the only measures exercising compulsory powers.

[3] We may instance the astounding preference for Dominion wheat, granted at Ottawa to suit the electoral needs of Mr. Bennett. The condition was made

In contrast the Second World War (September 1939 to August 1945; Germany defeated in May 1945) shows not only a suitable disregard of vested interests—which is only natural in a war—but also an inventiveness and a rationality almost unbelievable to a student of the inter-war period. This is not surprising, since the problems were fairly familiar. Few devices had not already been tried out in the First World War, and a belief in Say's Law cannot hurt in an inflation, where economics really does shrink into being the 'science of choice' and little else. It must by no means be assumed that the war economic machine slipped smoothly into gear, however, or that there were not gross mistakes: least of all that the problems were always the same during the course of the war. It is purely for reasons of space that we must confine ourselves to showing the finished picture.

(*a*) The central economic problem of war is *inflation*, meaning acute excess demand. The dangers of this were largely averted by rationing and direct allocations (Section 7 (*f*)). The actual excess purchasing power was largely curbed by taxation (see Section 8), by forced loans from the banks to the Treasury (the six-months' bills known as Treasury Deposit Receipts), by forced loans from the public (these were formally a part of the income tax which the Government promised to repay free of interest after the war—the 'post-war credits'), by forced loans from firms (these, known as Excess Profits Tax Refunds, were on the same principle as post-war credits), and by the National Savings Movement. This movement made propaganda of no great economic sophistication, adjuring people, not to buy less clothes (which was the point of the movement), but to lend to the Government to enable it to buy more Spitfires (the finance for which would have in any case been

that the wheat be sold to us at world prices, i.e. that the preference should be valueless. The laws of supply and demand enforced this condition. Since the international wheat market was a perfect one foreign wheat was no longer sold here (except for some Argentine wheat of preferred quality) and the Dominions got a monopoly of the British market. But they continued to compete with each other and to produce a surplus we could not consume, which was sent to Europe, without price discrimination. The European price therefore ruled in London and nobody gained or lost; except that foreign wheat was diverted to Europe and Dominion wheat to London, raising transport costs all round. The same happened with the lead and zinc preferences. The English Milk Marketing Board, again, always paid the milk dealer for transportation expenses at the rate for less than car-load lots. But often the dealer could ship in bulk at lower rates, and it then paid him to have the milk carried to as distant a destination as he could find.

forthcoming). It sometimes even accepted newly created credit from banks, which of course did nothing to diminish private consumption. There was also—and remains—a rigid aversion from admitting that savings through such media lose their value as prices rise. Nevertheless, consumption was much diminished, and the working classes emerged immensely richer in capital from the war.

A different sort of curb on inflation was the import surplus (Section 7 (*n*)).

(*b*) *Investment.* Aside from the forced loans mentioned above the capital market was also controlled as follows. First, all new issues were controlled by the Capital Issues Committee, dominated by the Treasury; this must not be confused with control over physical investment itself, for the relationship between that and a new issue is always remote and often non-existent. Physical investment as such, apart from building and, at certain times, machine tools, was not controlled during the war; it came under raw material and labour controls just like current production. Secondly, the bank rate was held at 2 per cent. Thirdly, there was strict exchange control and an embargo on foreign issues. All this, and the general plentifulness of money, kept the long-term rate of interest low throughout the war, so that, with the help of rising prices, the service of the national debt, which took 4·4 per cent. of the national income in 1938, took only 6·0 per cent. in 1946—a most notable achievement.

(*c*) The rise in prices was damped down by the anti-inflationary measures given above. There were also many forms of price control. First there were the controls of prices of consumer goods and services. From the earliest days of the war the Ministry of Food began to fix maximum prices of all kinds of foodstuffs, for wholesalers and retailers. Control of non-food consumer goods and services was slower in coming. The first measure, the Prices of Goods Act, passed in December 1939, did not attempt to fix maximum prices, but only to restrict price increases above the level of August 1939 to those which could be justified by increases in costs. In principle it attempted to keep the net profit of traders per article sold at the level of August 1939. In practice it proved ineffective except against the most flagrant cases of overcharging. It applied, not to classes of goods, but to goods sold by particular traders. What had to be proved was that a particular trader's price had

gone up by more than justifiable cost increases. This provided a loophole, for traders could legally 'boost' the price by selling an article back and forth between them. It was left to the consumer to make complaints with the local Price Regulation Committee (17 local committees and a central committee were set up under the Act), and very little publicity was given to the provisions of the Act. The cost schedules were elaborate, and the idea of fixing the *net profit* per article cut across the normal trading practice of applying a fixed gross percentage margin to the manufacturer's or wholesaler's price. The most useful results of the 1939 Act were the informal arrangements between the Central Price Regulation Committee and manufacturers of branded goods which led to the fixing of 'permitted prices' for branded articles ruling in all shops.

The Goods and Services (Price Control) Act of June 1941 was a far stronger measure. It gave wide powers to the Board of Trade to fix not only maximum prices for any goods (other than food) either new or secondhand, and services (except gas, electricity, rents, &c., already covered), but also to fix maximum profit margins at all stages from manufacturer to retailer. It no longer made investigations and prosecutions dependent upon the complaints of consumers, but imposed direct responsibility on the Board of Trade. In addition it put an end to the more obvious evasions of the Prices of Goods Act, e.g. the uses of unnecessary middlemen, selling 'on condition', selling goods jointly with the object of extorting a higher price, or arbitrarily changing the quality of the product so that as something 'new' it could not be tied to the level of August 1939.

The second was control by government purchase. This covered, first, all government contracts for *munitions*, &c., where the Government was also the final consumer, and secondly *primary commodities* in which there is a perfect market. These latter were included, even if destined for the civilian sector, because the producer in a perfect market cannot administer his own price at all; *a fortiori* then not according to some government schedule. So the domestic wool clip and wheat crop were bought by the Government and resold.

Further the prices of many consumers' good were subsidized, as shown in the next section. These subsidies have far outlasted in time, and outgrown in extent, the intentions of their original creators. The idea was that an iron ration of food and other goods

should be guaranteed to labour at fixed prices for the duration, in exchange for wage restraint. *Il n'y a que le provisoire qui dure.*

A further measure against rising prices was rationing (see Section 7 (*f*)).

The chief problem in government price fixing, whether by order or by contract, was to avoid 'cost plus', the system of allowing all costs to the producer and a mark-up for profit on top of them. If this mark-up is a percentage of costs, it pays to incur higher costs, as the absolute profit is higher. Even if not there is no incentive to be efficient. But the system avoids haggling and disagreeableness. It is also the only possible system for prototypes, and requires little manpower to administer; for these reasons it was more frequent at the beginning of the war. One alternative was the competitive tender, where the reward for efficiency is getting the job. This is suitable in peace-time, if not rigged by the trade association of the competing firms, but impossible in war as it is too slow and presupposes available capacity in many firms. Another is the named fixed price, with or without allowances for rising wages or raw material prices. Here the reward for efficiency is profit. This worked well in the civilian sector and on standard munitions where there was past experience on which to base the price. But in complicated engineering jobs fresh costing had to supplement past experience, and the procedure tended to shade off into cost plus. The prices fixed, especially in this latter field, nearly always erred on the side of generosity. It was vital that the government accountants should estimate costs before, not during or after, the execution of the contract. The retrospective check, called post-costing, prevailed at first, when there were fewer accountants, and was very expensive.

In the civilian sector the price was not tailored to each individual firm, as in some munitions, but applied to the whole industry. So the intra-marginal farmer or industrialist made large profits from the high war-time prices without great effort. Yet to tax away these profits reduces efficiency, and this was the effect of the Excess Profits Tax, which fell at the rate of 100 per cent. A solution for this was found in Germany by Albert Speer, but not applied in Britain until 1951: to fix a low general price which any intra-marginal firm may beat if it likes and get a profit, and to fix individual prices for the marginal firms. Costing, where it applied to individual firms, was directed not to reducing profits per unit, as

in the first war, but profit as a rate on capital; that is, firms with a high turnover were allowed a lower rate per unit.

(*d*) *Rising wages*. It is of the utmost significance for the post-war economy that these were not directly curbed. There are few countries in which the Government had and has less formal control over wages. None the less, as with the financial system, a great deal can be done by persuasion, though in the nature of things co-operation is nothing like so good as in the City. At any rate a successful appeal was made during the war to the workers' patriotism.

There were, however, indirect controls over wages. Wage disputes were subject to compulsory arbitration, and the 'wages' of the many members of H.M. Forces were decided, of course, by fiat. Wage policy was also much helped by intelligent manipulation of the official cost-of-living index so as to present a false picture of the cost of living. This index rose (1939–45) by 31 points, whereas a more honest index put on 50 points. The trick was that the goods in the index were those bought by the working classes in 1904 and 1910. Some of them were hardly in production any more, and many more had lost their importance in the consumers' budget. With free prices this might not have necessarily made these goods unrepresentative of the general price level, but in fact those with greatest weight in the index and least weight in real life were most heavily subsidized.

(*e*) But if the trade unions would not tolerate formal control over their members' standard of living they co-operated admirably in all sorts of other *labour controls*. To get people into the right places there was universal direction of labour (or, in the case of the Armed Forces, conscription). To keep them there there was the Essential Works Order, which forbade certain changes of job. It is, however, by these two controls that economic planning most directly infringes personal freedom. They were therefore the most unpopular and the least rigidly enforced of all controls. Disputes on all issues except those of union recruitment were subject to compulsory arbitration. Restrictive practices were abolished by agreement, but an act made compulsory their restoration at the end of the war; in particular skilled labour was replaced by unskilled, female, and juvenile labour (the process known as 'dilution'). Another undertaking imposed on employers was 're-instatement', the return of men who had been on war service to

their pre-war jobs; this arrangement worked surprisingly well in the event.

(*f*) Both on the consumers' and the producers' markets most things were *rationed.* The prime object of rationing is to restrict consumption without raising prices. Simply to depress prices without rationing causes effective demand to exceed supply: queues form at the shops, and those who get most are no longer the rich in money but the rich in leisure and low cunning. In the producers' market rationing is partly an anti-inflationary measure, as above, and partly an excellent quick way of diverting raw materials from civilian to warlike production. Where this diversion from one firm to another was not an object, supplies were rationed as output quotas are in cartels: as a percentage of usage in some past period taken as the base. This is a highly important general feature of rationing, and of much other planning. For fairness and for administrative simplicity there is no other way to begin a scheme, but thereafter it is inflexible and inhibits progress; since the progressive firm can no longer gain upon its backward rivals and further entry is impossible. Moreover some firms may have been rendered inefficient by the war: for instance because they are situated near east coast ports and must receive supplies by rail from Liverpool. For all these reasons basic quotas must be periodically revised; but in the nature of things such revision is neither quick nor drastic enough. In the case of very important materials (e.g. steel) basic quotas were not allocated, but a system of much greater flexibility and power was used. Each government order, or licensed private order, for an object requiring steel carried with it the right to the requisite amount of steel, just as an import licence carries with it the right to foreign exchange. This right, the 'M form', was then a coupon cashable in steel at a steelworks, and most steel was allocated in this way, with reference to particular final products previously ordered or licensed. The main contractor could split his M form among sub-contractors to a certain extent. But components in very general use, such as ball-bearings, were separately licensed and carried their own M forms. Such components were then sold without further control to those who wanted them, the authorities being secure in the knowledge that the final users of, say, ball-bearings could only want them for final products already licensed. The disadvantages of M forms were twofold: first, their immense administrative complexity, and, secondly, their tendency to 'coupon

inflation'; there were on more than one occasion too many M forms chasing too little steel.

In the consumers' market control of inflation is still important, but rationing is also a social or distributive measure. The war began with a certain distribution of personal incomes which it was not an object of coalition politics to alter. But the volume of goods for these incomes to buy shrank and the price of necessaries rose. If nothing had been done the rich would have forgone the luxuries to buy the necessaries and the poor would not have been able to buy enough necessaries to live. Rationing kept the prices of necessaries within reach of the poor and yet prevented the rich from cornering them all.

But rationing condemns the consumer to buy stated quantities of particular goods. If he does not like these he goes without. A beautiful economist's toy, and a most popular refinement of consumer rationing, was the *points* system. Points were a coupon currency, issued to all equally, having purchasing power over a long list of named goods (chiefly quasi-essential groceries)[1] interchangeably. These then had their points prices and their money prices, and could not be sold unless both were paid. All the objects of rationing were achieved while preserving some freedom of choice.

(*g*) Much surplus capacity naturally appeared in civilian industries. So long as all firms continued working at low pressure, overheads were very high and factory space and labour were retained that might have been released for war work. These industries were therefore *concentrated.* Firms were asked to arrange among themselves, or failing that were compelled, to transfer their current civilian outputs to one of their number, the 'nucleus' firm, which, of course, had to compensate them. The main difficulty was product differentiation, which predominated in all the industries concerned. Some nucleus firms simply manufactured the guest firm's particular product on commission, and handed it over to the continuing sales organization of the guest firm. There was even movement of special machinery for this purpose from guest to nucleus. More economical solutions were, however, often adopted. Some nuclei bought their guests outright, and some produced a standardized product. Concentration often coincided with the introduction of a utility scheme, or with a renewed contraction of the

[1] The clothing coupons constituted a separate system of points for textiles.

industry's output. Usually, but not always, the nuclei were more efficient than the guests.

It is curiously difficult to discover what the permanent effects of concentration have been on the structure of the industries. Presumably they were slight, contrary to expectations. The concentrated firms appear to have mostly resumed operations. Doubtless the situation would have been otherwise under post-war deflation. Certain it is that the arrangements were made more often by individual firms than by trade associations, and did not strengthen the latter.

Although the numbers of both firms and employers in wholesale and retail *distribution* shrank, the planned concentration proposed in 1941–2 never came off, and this left a post-war legacy of overexpansion. This industry, especially its numerous small entrepreneurs, offered successful political resistance to government interference; the small shopkeeper is the nearest British approach to the peasant. The chief distributive economy actually carried out was *zoning*, or the prevention of cross-hauls in the distribution of certain imperfectly competitive goods. A small scale example of this was the carving up of separate streets among milk roundsmen.

(*h*) The *utility* schemes imposed by detailed specifications the mass production at controlled prices of simple, standardized lines, shorn of trimmings. They covered the bulk of the output of many civilian industries. Producers of utility goods were guaranteed supplies of raw materials, and purchase tax was lower than on the luxury lines. Thus a supply of cheap essentials was assured at the expense of luxuries, and the specifications also set up a minimum standard below which quality could not fall. The other advantages of this scheme have often been misunderstood. It was not connected with the concentration of industry, being introduced rather later. Though not primary objectives economies of scale through longer runs and the saving of supervisory labour were achieved in some cases, notably cotton. By prohibiting 'trimmings', again, utility reduced imperfections of competition and—at no little cost to quality in some cases—saved materials and labour; though in many cases, e.g. weaving, the technical differences between utility and non-utility were negligible. Principally, however, it made price control more effective; for naturally it was easier to cost articles so exactly specified, and certainty of costing permitted less generous fixed prices. Thus costs of production were reduced in a number

of lines and producers were forced to operate with less profits. The consumer gained in part through the smaller profits, chiefly through the purchase tax concessions; though in the long run and in peace-time technical progress is clearly retarded by detailed centralized specification. At the outset utility goods were all rationed, and this indeed is almost necessary, for their prices are nearly always below equilibrium level.

(*i*) *Government ownership and management* was, of course, much extended. The number of Royal Ordnance factories rose, and many munitions firms operated partly with government capital. But the general principle in both wars was to make no politically controversial move, i.e. to alter the basic structure as little as possible. Consequently the Government exercised more the powers of a cartel than of a trust. With zoning and concentration the chief exceptions, non-interference with ownership and the channels of trade was the rule. In particular the railways and coal-mines were operated but not owned by the Government. As in 1914–18 the former were run as a unit while no improvements were made in the latter. An attempt was made to counteract the shortage of mining labour by concentrating it in the better pits, but obstructionism on both sides of the industry rendered it nugatory. As costs rose, and prices were not allowed to keep pace, many inefficient mines made heavy losses. Their position was aggravated again by wage awards that equalized the wages paid in unproductive areas with those paid in the productive and profitable areas. These losses were recouped via the Coal Charges Account by a levy on the more efficient. While this scheme kept down profits and prices it also cut across the concentration scheme by preserving inefficient pits. Its peace-time legacy would be disastrous if ever the demand for coal were to fall, but while all possible output is required its faults would appear to be fewer than its virtues.[1]

(*j*) Much civilian production was also simply forbidden, especially building. The use of scarce materials in non-essential goods was similarly licensed or prohibited. Such measures, which fall chiefly under the Limitation of Supplies Orders of the early part of the war, were crude and unselective. Textile manufacturers, for instance, concentrated their limited cotton and wool upon the most

[1] In both wars there were a number of such profits pools in other industries. Their chief *raison d'être* was justice between firms suffering unequally from war scarcities, e.g. vegetable oil mills at east and west coast ports.

superior kinds of output, so as to force the release of yet more supplies for essential, or lower grade, qualities. The utility scheme cured these defects.

(*k*) *Agriculture* showed a very different spirit in war-time. It was administered through the *County War Agricultural Executive Committees* (W.A.E.C.s). These were among the most successful controls of all. In an 'industry' where there are many small masters and regional problems differ widely most decisions must be devolved locally. The committees had each a chairman selected by the Minister, an agricultural worker, a member of the Women's Land Army, farmers, landowners, land agents, &c. Duties and powers included: dissemination of technical knowledge; allocation of fertilizers, feeding-stuffs, machinery, and labour (all at cost or below cost; much of the machinery and labour belonged to W.A.E.C. pools, and was hired out); direct land reclamation, or the subsidization of reclamation undertaken by others; the issue of cropping orders in accordance with the national plan (there was always consultation, and only in the last resort were these compulsory); and, in rare extreme cases, displacement or detailed supervision of inefficient farmers. This drastic interference was loyally tolerated; output rose and technique improved despite a drastic change in the products required (see (*m*) below). Of course decreasing returns rapidly set in as marginal land was taken under cultivation, and the achievement was not without cost to the rest of the community. In particular the intra-marginal farmer on the better land gained enormously, although he was liable to E.P.T. But in view of our post-war balance of payments this is not all loss even in peace-time.

The Milk and Hops Marketing Boards continued a separate existence, but the rest were merged into the new Ministry of Food.

(*l*) *Rents*. See Section 4 (*g*).

(*m*) In British wars *shipping* is always so important a bottleneck as to merit separate treatment. However short foreign exchange, shipping space is usually shorter, and the import programme tends to be tailored to it alone. This has far-reaching effects on the use of home resources. For instance our agriculture imports feeding-stuffs in peace-time, but these have to be converted into human food by animals at a very inefficient ratio. More calories per ship can be imported in the form of wheat or groceries. Accordingly our livestock industry was cut down to what home produced

feeding-stuffs could maintain, and the land was put under the plough.

The urgent import requirements of departments would give the Minister of Transport and Shipping the duty of deciding the most important issues of priorities merely by affording shipping space. He would, were he not controlled, become a War Cabinet in himself. Shipping priorities were thus a very frequent Cabinet question. Like railways and mines all ships were operated by the Government.

(*n*) *The balance of payments* is always and obviously one of the principal difficulties in a war. Great Britain could not again, as in the previous war, simply live by *realizing her foreign investments.* Nevertheless, many of the remainder were realized; all holders of foreign securities had to register them, and surrender them in return for British government stock on demand. Other expedients were:

Exchange control, which made permission necessary for every purchase of foreign exchange whether for capital or current transactions. In the latter case the issue of the import licence carries with it the permission to buy foreign exchange, so that import licensing is directly a part of the control. Exchange control was imposed by every authority in the Sterling Area on agreed principles, and it was much more lax between countries inside the area.

New debt was piled up in return for unrequited imports, but hardly at all with countries outside the Sterling Area. This new debt, added to the pre-war short-term debt of sterling countries, formed the post-war sterling debt problem. It is only possible to admire the skill and smoothness with which poor colonies (and India and Egypt), often not greatly wishing our victory, were persuaded to support our troops and send us vital exports in return for debt, held at low interest and partly frozen, in a depreciating currency. To be sure we paid exorbitant prices for these imports, but that is only a slight offset to our gain. Our chief source of supplies outside the Sterling Area was the U.S.A. Her we paid at first in cash, but later we were able to borrow unlimited sums under Lend-Lease (March 1941), all of which were ultimately forgiven us. Since the U.S.A. was our willing ally, and had devoted at best but about 43 per cent. of her larger national income per head to the war (our maximum was about 56 per cent.), this was doubtless only just. Until Lend-Lease a strong *export drive* was undertaken,

to earn foreign exchange. It was encouraged by preferential allocations of raw materials, by statutory limitation of inland sales, and other devices. But after Lend-Lease our foreign exchange position was assured for the duration, and exports were no longer needed —an almost comic parallelism with the effect of America's entry into the First World War. Moreover the Americans naturally jibbed at the idea of British exporters cutting them out in their own markets with goods made of free American materials; also restrictions on exports were required to ensure that home rations were honoured. So British exports were deliberately reduced to a few token supplies to maintain good will, and to such deliveries as the U.S.A. could not conveniently make (by the Export White Paper of September 1941). This was a sensible war-time division of labour, but clearly raised a very awkward post-war problem: perhaps the only one to be correctly foreseen, understood, and prepared for.

Bulk purchase had the aim not only of stabilizing prices, as shown in (*c*) above, but of conserving foreign exchange and rationing it to its most important uses. Nearly all imported raw materials were subject to bulk purchase by Ministries for these reasons alone, and the post-war restoration of importing to private enterprise stumbles principally upon the exchange difficulty.

(*o*) From pre-occupation with our balance of payments, and, after America entered the war (December 1941), from the desire to co-ordinate effort and divide labour, sprang a multiplicity of *inter-governmental committees*. These, which are outside our province, chiefly allocated raw materials, shipping, and foreign exchange. The way to post-war co-operation was thereby opened, and schemes for this were laid in inter-allied consultations. Most important in this connexion was the Mutual Aid Agreement of February 1942. By this the U.S. undertook to continue Lend-Lease and Great Britain gave certain reciprocal undertakings. Vague references were made to repayment after the war, and to 'the elimination (after the war, by both parties) of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers'. This was the celebrated Article 7, from which so many post-war international conferences and organizations sprang. Indeed, most of the practical internationalism of today had its origin in the personnel of these bodies and missions. To the keeping on of internal controls in 1945 corresponded the peace-time pursuit

of international economic co-operation, just as in 1920 abolition of the former entailed withdrawal from the latter.

8. *Overall planning* by no means necessarily accompanies detailed state intervention. We may trace its growth right through our period. Its existence is almost solely due to war. Before 1916 it did not exist: the modern economic State had not been invented, all measures were taken piecemeal and departments competed with each other, even in purchasing supplies. The Cabinet was too large to act, or collectively to initiate anything, or even to co-ordinate. It had no secretariat. There existed only the Committee of Imperial Defence (founded 1903), a powerful but not executive body of Ministers and experts with a permanent secretariat, that co-ordinated the defence of the Empire. It was in many ways the model for Lloyd George's War Cabinet, but interested itself hardly at all in economics; the role of economics in an industrialized war was not understood. When Lloyd George became Prime Minister in December 1916 he created a War Cabinet—that is, a body small enough to think like a committee and powerful enough to force co-ordination on Ministries, and decide priorities; equipped above all with a permanent staff of its own, the *Cabinet Secretariat*. Beneath the War Cabinet grew up *inter-departmental committees*, which are the indispensable backbone of overall planning, for not otherwise can individual ministerial responsibility be reconciled with it. These, like the Committee of Imperial Defence, have not normally executive power, but their persuasive power is great, especially through the threat of appeal to the Cabinet. In practice agreements reached by such bodies at however low a level of authority are not usually revised by committees at higher levels or questioned by individual departments. The 'overall' economic problems dealt with by this machine were the same as in the Second World War: shipping space, raw materials, manpower, and, to a lesser extent, finance.

This unwonted cohesion in Whitehall largely decayed in peace. For just as individuals have separate and conflicting ends in peace so have departments—if they have any ends at all. However, the Committee of Imperial Defence, in abeyance during the war, was set up again. It had, again, long been the custom to consult independent experts, especially by making them Royal Commissioners, but also quite informally. In 1930 the Economic Advisory Council, a sort of standing Royal Commission, was formed to advise the

Government quite generally on economic matters. Of very various political composition, it was neglected by the National Government and petered out through inanition. It contained two economists, however, and exercised a general enlightening influence on civil servants. There is direct continuity between it and the war-time penetration of the Civil Service by economists. More powerful but less enlightened and confined by its charter to narrower issues, was the Import Duties Advisory Committee (I.D.A.C.), set up under the Import Duties Act, 1932. This was a rather weak form of the Tariff Commissions known to old protectionist countries. Its recommendations on tariffs were usually accepted by the Government; but its attempts to reform the industries applying for tariffs had no success.

During our period, and especially during the Second World War, certain habits of consultation grew up which in their informality, flexibility, but substantial persistence, merit also the title of constitutional usages. A *corporatist tradition* now reigns that the following shall be consulted:

(*a*) In industrial matters: the employers and the employed, both those sections involved in the particular issue and the F.B.I. and the T.U.C. It depends upon the politics of the Government whose advice is listened to in case of conflict.

(*b*) In agricultural matters: the National Farmers' Union. The workers have influence only on a few select issues.

(*c*) In financial matters: as of old, the City.

Some of this consultation had been formalized by 1945. To mention only the two most important bodies, there were: the National Production Advisory Council on Industry, set up in 1941 (chairman, Chancellor of the Exchequer), advises numerous departments on 'general production questions'; under it are regional and district boards, set up in 1940. The National Joint Advisory Council, set up in 1939 (chairman, Minister of Labour), deals with labour questions; under it are local employment committees, set up in 1917.

Both of these councils have the usual tripartite composition of government, employers, labour. There were innumerable others, the more technical and less important ones omitting the labour element. There was little formal or informal representation, consultation or even thought for consumers, except occasionally during the wars.

It is with the Second World War that rational overall planning

begins. Still more than in the First World War was it necessary for the single party government in power at the outbreak to resign before anything vigorous was done. To the inherited war-government machine as described above[1] there were then added three innovations on the economic side: a *Prime Minister's Statistical Section*, advising the Prime Minister on particular points that interested him; a *Central Statistical Office*, supplying the statistics required by the War Cabinet and co-ordinating departmental data; and an *Economic Section of the War Cabinet Office*, giving it expert advice. Both of these latter were on the strength of the Cabinet Secretariat, not the Treasury. Further, the Chancellor of the Exchequer was neither in the War Cabinet[2] nor chairman of the Ministerial Economic Policy Committee. This committee and its successor, and the two latter offices named above, came under the Lord President, whose committee was *the* overall planning body, except in the direct processes of war production. Planning was physical, and the business of the Treasury merely to provide the money and avoid inflation as far as possible. Only in the vital field of foreign exchange had it real power. But necessary though it was for the Treasury to be weak in war-time, when goods clearly take precedence of money, this weakness was a dangerously inflationary legacy for peace.

However, one of the means by which the Treasury dealt with inflation marks a vital advance in overall economic planning, and is easily the most interesting economic result of the war. Economists caused public money to be spent on estimating the national income (by the Central Statistical Office). From the *ex post* figures of the previous year, and a knowledge of current trends and needs, it was theoretically possible to estimate in pounds *ex ante* the supply of goods at current prices, and the demand for them at current rates of tax, next year. The *ex ante* excess of demand over supply constituted the *inflationary gap*, to which, more or less, the public revenue through new taxation should be equal. Thus, with the National Income White Papers and the concept of the measurable inflationary gap, was scientific budgeting born into the world,[3] and

[1] This time the members of the War Cabinet mostly had portfolios and direct administrative responsibilities. In the First World War none did.

[2] He spent some time in the War Cabinet later on.

[3] Although the first country to base the budget on national income estimates, Britain was not the first to spend public money on them. The credit here goes to the U.S.A. and Germany in the early thirties.

with it a revolution of the methods and even the aims of state intervention, whether from left or right. However, the practical importance of this invention at that time must not be overrated. For the *ex post* figures were quite inaccurate and the *ex ante* estimates more so; nor was it politically possible to raise so much in taxes as the figures indicated.[1] Moreover, the whole procedure was based—rightly during a war—upon the assumption of continued low interest rates; and thus the concept of monetary control by interest rates had been elbowed out of the picture when peace returned. Finally, the estimates were only useful in relation to inflation. Actual war production was controlled by current censuses of the physical factors required, and not at all by the national income estimates. To curb inflation one needs a census of money, which is all that these White Papers are; to produce guns one needs a census of steel. The National Income White Paper comes into its own in international negotiations when the due contribution of this or that nation to a common task like rearmament or war is reckoned in percentages of national income. It is also more important in peace-time (though not necessarily more accurate) when physical controls have dropped out and monetary control is the principal weapon.

By 1945 economic thinking was much more widely understood than before, chiefly because economists had now something useful to contribute. Many economists had been in public service, and most civil servants in the important posts had some smattering. The ties of business and government were also much closer, as many business men, too, had been in the Civil Service. There was no field of economic activity not covered by a definite Ministry, versed in its problems and performing statutory functions with regard to it. In this way each industry was *sponsored* at Whitehall by some office, and this habit of sponsorship is now so ingrained that we may fairly call it a usage of our unwritten economic constitution. Raw material and labour allocations, building, investment, and import licences were all obtained through a departmental sponsor. The feeling that the economy is a coherent whole, and the mutual understanding of its parts, had most notably increased.

[1] Moreover, the bad theoretical error appears to have been made of supposing that all the new taxation would fall upon expenditure; whereas in fact new taxation falls with peculiar heaviness upon savings, which form no part of the demand for goods. The required extra taxation is thus always much larger than it looks. This error was still being made by the Chancellor in 1951.

PART III

ECONOMIC DEVELOPMENTS AND POLICIES

CHAPTER VIII

FISCAL POLICY

By I. M. D. LITTLE

Classification

BEFORE embarking on a discussion of fiscal policy it is necessary to decide what taxation is. A positive tax is any compulsory payment to a central or local government not being a payment for goods or services received. Such taxes are classified as direct or indirect. Direct taxes are those which fall directly on a person's income or capital, and thus vary with what he buys or sells only in so far as he sells more or less of his own productive services. Broadly speaking, in the United Kingdom they are those taxes collected by the Inland Revenue[1] together with contributions to the National Insurance Funds; other taxes are called indirect. Negative direct taxes, or direct subsidies, are payments to individuals by a government, not being payments for goods or services supplied. They comprise such items as social security pensions, health and unemployment benefits, and family allowances. An indirect subsidy is the excess of the cost of a good, or service, over the price paid by the consumer, the difference being charged to the Government.[2]

[1] Stamp duties are an exception.

[2] There may, of course, be a doubt in particular cases whether a payment can be said to be a payment for services rendered or not. There is, for example, such a doubt in the case of wireless licences, and even in the case of motoring taxes. The former should probably not be classed as a tax (but since it is a small item we follow the National Income White Papers in so doing). Where a payment can in no way be legally avoided (as wireless licences, &c., can be) it is always classified as a tax, e.g. compulsory insurance. An additional reason for classifying such payments as taxes is that national insurance is not financed on actuarial principles. A consequence of not counting compulsory 'insurance' contributions as payments for services rendered is that the benefits paid out must be classed as subsidies, as is done in the text. This classification need not be taken as

A problem arises, in the case of an indirect subsidy, when the consumer pays nothing. This is because the good may or may not be of such a kind that it could be sold to individuals. If the good could have been sold to individuals, and is in fact supplied free, its total cost should rank as a subsidy. If, on the other hand, there is no choice, because the good could only be paid for out of communal or governmental expenditure, then its cost should not rank as a subsidy.

The above principle is adopted because it is the only one of economic significance. The question whether goods are to be paid for on a communal basis, or individually, is very important. Thus a decision to supply goods free to individuals is taken to be a matter of fiscal policy if the opposite decision could have been made. Whether or not goods are of a kind that could be sold to individuals is, to some extent, a matter of opinion.[1] The National Health Services clearly could be. Most public expenditure on education should also rank as a subsidy on our principles. The line of division is fairly clear. Goods are of a kind that could be sold to individuals only if most of the benefit would accrue to the purchaser.

We must now add another important distinction to that of negative versus positive, and direct versus indirect taxes. A capital tax, for our purposes, is a tax which is likely to be paid out of capital, i.e. out of accumulated savings held in cash, or by the sale of assets. The importance of the distinction is that a capital tax is unlikely to reduce the consumption of the payer by more than an insignificant fraction of the amount paid. Equally a capital subsidy is (by definition) not likely to increase consumption significantly.

The most important examples of capital taxation are death duties. They are assessed on capital. An example of a capital tax,

prejudicing the question whether or not people prefer to believe that they are buying insurance rather than paying taxes and receiving subsidies. The reader must, however, note that I have thus defined taxes and subsidies, and consequently the field of fiscal policy, in a rather wider manner than is usual in most discussions.

[1] e.g. roads, as always, are a difficult border-line case. It can be argued that they *are* sold to individuals, via car and petrol taxes. If this is granted then only the excess of these receipts over expenditure on the roads should count as taxation proper. (This adjustment is not made in the present discussion.) On the other hand, it is obvious that the army, for instance, could not be sold to individuals.

assessed on income, was the Special Contribution of 1948.[1] Both these are direct capital taxes. Examples of indirect capital taxes are the stamp duties, which are mostly assessed on the sale or purchase of specific assets, e.g. houses and securities. Payments of war damage claims, and compensation to doctors for loss of practice, are, respectively, examples of direct and indirect capital subsidies.

The distinction between capital and other taxes is, to some extent, a matter of opinion. For instance, the current consumption of some individuals may have been reduced by the Special Contribution, since those with only a small liability may have tried to pay out of income. Most people would agree, however, that its total effect on consumption was probably very small. To take an opposite case, some wealthy people may, by selling assets, defend their consumption standards against an increase in taxes of any kind, paying part of their taxes out of capital. To this extent any tax may become a capital tax. (Yet this would clearly be insufficient reason for so classifying all taxes.)

Although the distinction between capital and income taxes is not hard and fast, it is better to draw the line somewhere than not at all. As we shall see below, one of the primary objects of taxation policy is to try to bring the amount people are likely to want to spend on consumption in some future period (normally a year) into equality with the probable value of the output of consumption goods, given that prices are not influenced by any general excess or deficiency of demand. Taxes which have a negligible immediate effect on the demand for consumption goods can play little or no part in the achievement of this object. For this reason they should be segregated and given a different name as is done in the National Income White Papers and *Economic Surveys*.[2]

The total volume of taxation

1. *The principles of overall fiscal policy.* It has become an accepted principle that adjustments in taxation should be made for the

[1] The Special Contribution was charged only on unearned income when total income exceeded £2,000. The rate of contribution rose from 10 per cent. for an investment income of £250 to a maximum of 50 per cent. for investment incomes exceeding £5,000.

[2] Cf. Cmd. No. 8203, Table 20. Items 7–10 are 'direct taxes on capital'. Items 29–33 are 'transfers to capital accounts', i.e. negative capital taxes. Stamp duties (item 14) are not, but almost certainly should be, classified as 'indirect taxes on capital'. Cf. also Cmd. No. 8195, Table 26.

purpose of avoiding inflation or deflation, and need bear no relation to government expenditure. Thus the total volume of non-capital taxation should be determined by the requirement that the aggregate demand for consumption goods should equal the value of the consumption goods which can be produced, or are imported, by the fully employed economy, given the value of production for investment, for exports, and for governmental needs. In other words, the saving or dissaving of the central government should be such as to make total public saving *plus* the amount private individuals and companies are likely to want to save, equal to the predicted value of domestic investment *plus* exports *minus* imports. If the latter total is greater than the former an *inflationary gap* is said to exist. If the reverse holds, a *deflationary gap* is said to exist.[1]

Taxing on the above principle may tend to lead either to budget surpluses or to deficits. Which it will be depends on the volume of public expenditure on investment and other goods and services, on the average propensity of private individuals to consume and firms to invest, and on the balance of trade. Even so, it could be maintained that the object of fiscal policy should be to balance the budget, since the full-employment objective of ensuring an adequate effective demand for consumption goods might still be

[1] It is important to note that the gap, thus defined, is the *consumption gap* only. It is quite possible to have equilibrium in the consumption good market, combined with inflationary or deflationary gaps in the investment good market, and in the labour market. The aim of fiscal policy as stated above is thus the limited one of establishing a consumption equilibrium. Since investment is partially controlled, and since very high levels of employment probably cannot be achieved without an excess demand for labour, we have taken the view that the limited aim of fiscal policy, as described above, is normally for the best. Indeed, if fiscal policy sought to establish equilibrium in *all* markets, the result might be unemployment of quite high incidence. However, it is not intended to suggest that fiscal policy may not sometimes be extended to deal with gaps in other markets; cf. the discussion below of special fiscal encouragement of private investment. Such policies must be specifically directed towards eliminating the relevant gap, and cannot be fully dealt with under the heading of *overall* fiscal policy. There is no limit to the number of possible 'disaggregated' gaps with which fiscal policy could in principle deal; but, clearly, there is a limit to the number towards which it could in practise, or should ideally, be directed. If a Keynesian fiscal policy is one which attempts to make the total value of all the goods and services people want to buy equal to the total value of all the goods and services they want to sell, then it is clear that post-war fiscal policy has to some extent departed from, or gone beyond, Keynesian principles in that Chancellors have thought mainly in terms of the consumption gap, relying on partial controls and rhetoric to suppress the bad effects of the other inflationary gaps.

attained by influencing total demand via changes in the distribution of disposable income (rather than via changes in its volume). Thus a redistribution from rich to poor increases the average propensity to consume, to the extent that the marginal propensity of the poor to consume is higher than that of the rich. Again, a redistribution of disposable income from private individuals to the Government will increase the overall average propensity of the community to spend, since the marginal propensity to spend of a government which keeps a balanced budget is unity. Redistributions in the opposite sense will, of course, tend to reduce aggregate demand. Another possible method is to encourage private investment by special inducements, or discourage it by control. Finally, the Government could adjust the balance of trade and thus influence the volume of goods available to be bought at home out of given incomes.

The difficulty about all these alternatives is that they have criteria of desirability which are quite independent of full employment. Thus very wide political and strategic issues are involved in any opinion as to a desirable level of public expenditure. Again, the amount of investment, both at home and abroad (and therefore also the balance of trade), which should prevail in Great Britain at full-employment levels of the national income, cannot properly be decided without weighing the needs of present consumption against future progress, not only in this country but also in undeveloped territories in other parts of the world. Finally, if possible, no one should be forced to let the needs of full employment influence his views as to what is a desirable distribution of wealth.

As far as the short-run is concerned, public investment may be difficult to vary rapidly without waste. Private investment may be difficult to stimulate except via a budget deficit. The balance of trade is also difficult to influence rapidly. Moreover, while in the short run both increased exports and greater private investment would increase employment, they might not be desirable from other points of view. Taxation, especially indirect taxation, can, on the other hand, be smoothly and rapidly adjusted; and in view of the cumulative forces inherent in both deflation and inflation speed may be essential if severe fluctuations are to be avoided.

There is little doubt that fiscal policy must be the main means of avoiding gaps which may arise from unforeseen fluctuations in

private investment, productivity, the propensity to consume, or the balance of trade. But, apart from such fluctuations, it may be objected that the distribution of real income may result in a propensity to consume which determines a demand chronically exceeding or falling short of the value of the consumption goods which remain after the needs of government and investment are met. The result would be either a chronic budget surplus or a chronic budget deficit.

A chronic deficit may result in a steady increase in the national debt with a consequent increase in the 'burden' of taxes falling on income. But it should be noticed, first, that the increase in the national debt could be reduced or even offset by capital taxation; secondly, that the 'burden' of interest on the national debt must depend on the proportion it bears to the national income. If the real national income of a fully employed economy, with 15–20 per cent. of gross investment, can be relied on to increase at a rate of 3 per cent. per annum, then in Great Britain a public deficit of some £750 million per annum would, if interest rates were constant, still result in a continuous decrease in the burden of the debt, even if there were no price inflation. If capital taxes were taken into account the deficit could be correspondingly greater. The fear of a chronic budget deficit is very largely irrational.

No one objects to a surplus *qua* surplus with its concomitant reduction of the National Debt; what is really feared is the bad effect of the high taxation which it may imply. In this connexion it must be conceded that the volume of taxation itself has, to some extent, criteria of desirability which are independent of employment policy. Taxation can clearly be too high for an economy which relies on the motive of personal gain. This implies that there are limits to the extent to which fiscal policy can be relied on to reduce consumption without reducing production. It must also be noted that the volume of taxation required to ensure that no gap occurs does not depend solely on the volume of investment and the balance of trade; it also depends very much on how the taxation is raised. Similarly the 'burden' of taxation will depend almost as much on how it is raised as on its volume. These points will be elaborated below where we deal with the structure of taxation.

Finally, although we have been considering taxation primarily as a means of 'closing the gap' by influencing consumption, it can also be used to influence private investment (and hence the possible

output of consumption goods), for instance by giving special tax reliefs on investment expenditure.[1]

The conclusion is that fiscal policy is an essential weapon for inhibiting short-term fluctuations. Balancing the budget from year to year is a futile aim with nothing to recommend it. Even in the long run a continuous budget deficit is not to be feared. In the now almost unimaginable circumstance in which the required deficit made the rate of growth of the national debt greater than that of the national income, the appropriate policy would normally be to reduce the rate of interest on new debt until the circumstance had ceased. Thus, *so long as the required total saving is not too great in relation to the national income*, fiscal policy can also be used without qualms as a long-run full-employment weapon.

2. *The revolution in fiscal policy*. The determination to act on the above principles constitutes the 'Keynesian' revolution in economic policy. The publication of the White Paper on the *Sources of War Finance* at the time of the 1941 budget marks the first stage, for the embryonic National Income White Paper was called in evidence to redress the balance of the budget. But the first really notable landmark was the Coalition Government's White Paper entitled *Employment Policy*.[2] In the foreword it was stated that 'the Government accepts as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war'. The actual proposals were fiscally pusillanimous. An undue reliance was placed on counter-cyclical public investment, itself implying cycles and unemployment to counter. The decline in insurance contributions with which it was proposed to reduce unemployment of quite severe incidence would have been a drop in the ocean. Moreover, it was also stated 'to the extent that the policies proposed in this Paper affect the balancing of the budget in a particular year, they certainly do not contemplate any departure from the principle that the budget must be balanced over a longer period'.

[1] Since the war an approach to Mr. Kalecki's 'modified income tax' (see M. Kalecki, 'Three Ways to Full Employment' in *Economics of Full Employment*, Oxford Institute of Statistics) has been made by the initial allowances on new industrial equipment. True, the total amount of money which can be set off against taxation is not, in the long run, altered. But a real relief is granted to the extent that (*a*) future reliefs are discounted, and that (*b*) the rate of taxation in the future might fall.

[2] Cmd. No. 6527, 1944.

The criticism can also be made that little or no attention was given to fiscal policy in inflationary conditions. This, however, was hardly surprising in view of the fact that in peace-time nothing but chronic deflation had been known for a great many years. The White Paper on *Employment Policy* would not in itself be sufficient evidence for our statement that a revolution has occurred. The additional evidence required lies in the *Economic Surveys* published since 1947, and in the Chancellors' budget speeches since the war, especially from 1948–51.

3. *Guessing the gap.* We must now examine the procedure of guessing the required amount of taxation. The chief statistical evidence is provided by the National Income White Papers which appear just before the budget. The figures relate to the previous calendar year. The *Economic Surveys*, also appearing just prior to the budget, attempt to forecast the national income figures for the following calendar year and, in so doing, tentatively provide the basis for an estimate of the gap.

It is necessary to estimate what the 'gross national product' will be in the forthcoming year; such an estimate is based on past productivity trends in various sectors of the economy, combined with current knowledge of special factors which may influence the rate of growth (e.g. recently matured investment, stocks of raw materials, recent wage advances, and changes in import prices). Taking current rates of taxation as given, and making allowance for any probable shifts in the distribution of private income, the future yield of the current tax structure can also be estimated. When this is compared with the probable current expenditure of the central and local authorities, the expected surplus or deficit of the public authorities emerges. The result is public saving or dissaving. From this, net capital taxation is subtracted to arrive at the expected contribution of the public authorities to total saving (net capital taxes merely transfer savings from the private to the public sector of the economy).

Next, a target for gross domestic investment, both public and private, must be set; to which is added the expected net surplus (plus or minus) on foreign trade account.[1] The result is the total of required saving. When the estimated contribution of the public

[1] Since foreign trade is partly controlled this figure is also a target. Both these targets must, of course, be set in the light of the residual consumption they permit.

authorities is subtracted we are left with required gross private savings (i.e. before payment of net capital taxes). The total of depreciation, changes in tax reserves, and undistributed profits (being the gross savings of firms) is then separately estimated. The subtraction of this total leaves us with required personal saving.

Required personal saving may be compared with the estimated expenditure on personal consumption (gross national product at market prices *less* public expenditure on goods and services *less* gross investment *less* the foreign trade surplus) in order to see whether one seems plausible in relation to the other. If it looks as though required personal saving is higher than people are likely to want to save, an inflationary gap is suggested; if lower, a deflationary gap.

Any estimate of the required changes in taxation must then be based on the gap, but also on a guess as to whether the situation is already inflationary or deflationary. The presence of current inflation or deflation cannot, of course, be directly assessed from national income figures because these can only show the outcome of conflicting forces arising out of public and private economic decisions. They can give no indication of the forces for change which may still be operative.

Thus all that can be estimated is an increment or decrement in a currently existing gap which cannot itself be measured. The estimate for required personal saving is a residual arrived at by subtracting estimates of other sources of saving (themselves the differences between estimates) from an estimate of investment and the balance of trade; a very wide margin of error is clearly possible. Similarly any estimate of what people would be likely to want to save is open to very considerable error.[1] In any period during which large changes were being made in the structure of the economy (e.g. demobilization or rearmament) the margin of error might well become very great.

Finally, it must also be noted that, in addition to all these difficulties, an allowance must be made for the influence which any proposed changes in taxation might themselves have on savings, investment, or the foreign balance. This is the reason why the saving or dissaving of the public authorities should be calculated so as to measure the probable influence on the total volume of

[1] See E. F. Jackson, 'The Recent Use of Social Accounting in the United Kingdom' in *Income and Wealth*, Series I, ed. E. Lundberg.

saving and not *ex post* so as merely to divide a certain aggregate of savings among its various *de facto*, or *de jure*, sources. Frequently the budget surplus or deficit is taken as the measure of the Government's influence. This is at best correct only if the said surplus or deficit is something which, conventionally, it is not—to wit, the difference between only those receipts paid from private incomes and only those expenditures which add to private incomes.[1] The question whether the budget should be thus reformed so as to give maximum economic significance to the surplus or deficit is a question we cannot deal with here.[2]

4. *Overall fiscal policy 1945–50.* In the previous section we noted some of the difficulties involved in a compensatory fiscal policy. It may therefore appear remarkable that the British economy has been kept at a very high and constant level of employment since the war without serious inflation arising out of an excess of demand. This success has been achieved by 'erring' on the side of inflation and by using moral and institutional restraints and special devices (e.g. price control, rationing, subsidization of the cost-of-living index, and voluntary wage and dividend limitation) to hold it in check.[3]

At first 'erring on the side of inflation' was hardly a deliberate policy. Although the proportion of expenditure covered by taxation was much higher in 1939–45 than in 1914–18, nevertheless the war was still financed largely by borrowing.[4] Consequently we emerged with a deficit of £2,354 million in 1945.[5] During the war inflation was prevented by rationing and price controls, public expenditure being far too great for fiscal policy (working on the

[1] Even if the budget were drawn up on the above lines, it could not strictly be said to measure the Government's influence. We have already seen that a large balanced budget is more inflationary than a small one. Indeed, to measure the Government's influence would be an impossible task which would involve tracing and summing the different multiplier effects of every pound spent and received. Even so, if only one dividing line is to be drawn, that between 'capital' and 'income' payments is undoubtedly the most important.

[2] Reference may be made to the bibliography.

[3] See especially *Statement on Personal Incomes, Costs and Prices*, Feb. 1948. Cmd. No. 7321.

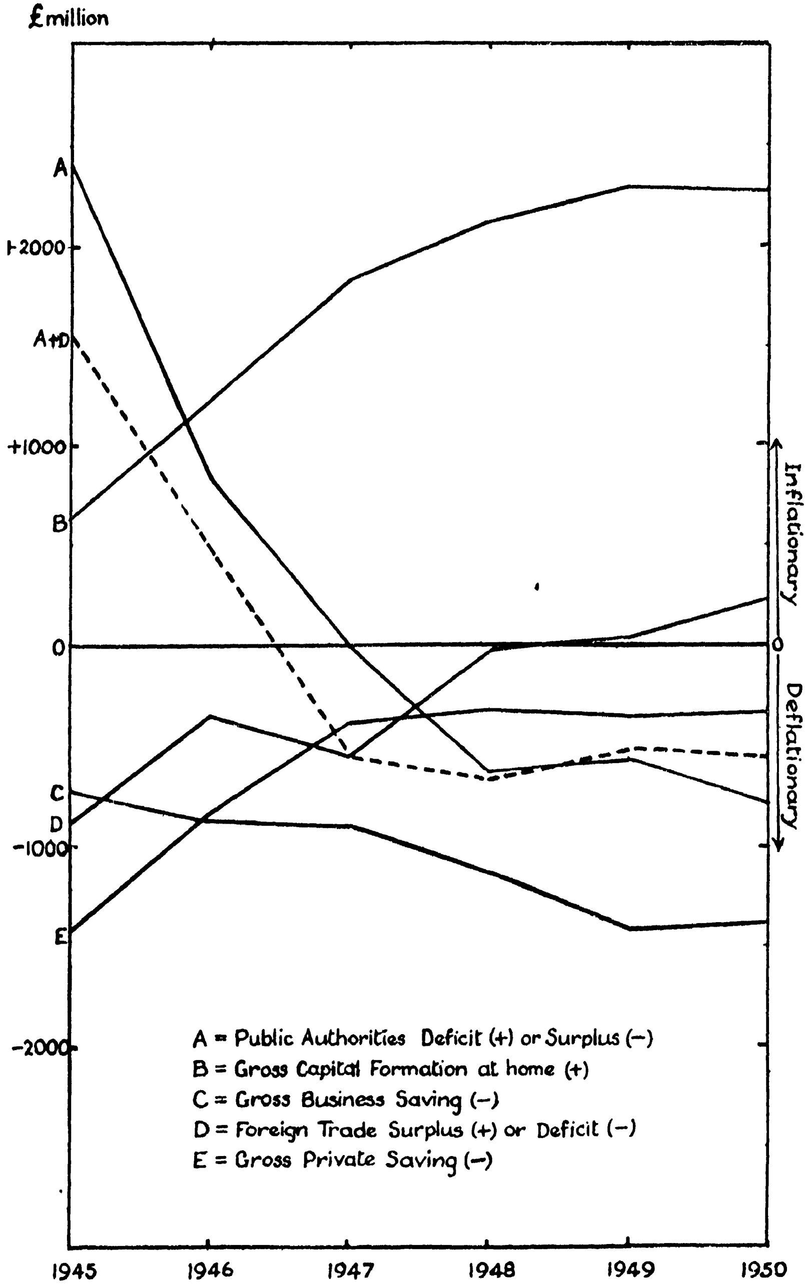
[4] e.g. in 1941–2, 46 per cent. of expenditure was covered by taxation against 29 per cent. in 1917–8.

[5] Surpluses and deficits quoted in this section are 'total sums set aside through the action of public authorities' as in Cmd. 8203. Table 29. This item is very close to the ideal economic (as against accounting) definition of a surplus or deficit as defined in the previous section.

Keynesian principles outlined above) alone to be successful in holding it in check. The same is true of the immediate post-war period in 1945–6. Central government expenditure on goods and services (including health and education) declined from a peak of 63 per cent. of the net national income in 1943 to 53 per cent., 29 per cent., and 23 per cent. in 1945, 1946, and 1947 respectively. It is evident from these figures alone that 1946 was the first year in which there could be any question of budgeting for full, but not over-full, employment. When consideration is also taken of the difficulties and frictions of what was still a transitional year, it is reasonably certain that any attempt to apply these fiscal principles, without the assistance of powerful controls, would have been disastrous. Since rationing and controls were required this seemed to make any nice calculation and reduction of the inflationary gap less necessary. On the other hand, it is undoubtedly true that it is better for fiscal policy and controls to fight on the same side.

The post-war history of the surpluses and deficits, together with the other means of financing gross capital formation, is presented in the Chart (p. 170). Inflationary items (public deficits, foreign trade surpluses, and gross capital formation) are measured above the zero line: deflationary items (gross private and business saving, public surpluses, and foreign trade deficits) are measured below it. The sum of the deviations, above and below is, of course, necessarily zero. The public deficit (*A*) was rapidly reduced from the high levels of 1945, though at a decreasing rate.[1] It became a small surplus in 1947. This latter year has become known as a year of severe inflationary pressure. The worsening of the foreign trade balance (*D*) in 1947 has been held to be partly a result of this. Whatever the validity of this contention (and it would take us too

[1] These reductions were entirely accounted for by reductions in expenditure. Tax concessions were made both in Oct. 1945 and in Apr. 1946. The standard rate of income tax was reduced from 10*s*. to 9*s*.; personal allowances were raised and purchase tax reduced; E.P.T. was repealed and refunds were made. These tax concessions were widely supported by responsible opinion under the banner of incentives. Even those authors who, in 1947, felt that suppressed inflation was hampering recovery were loth to suggest any increase in taxes, and concentrated on the need for cutting investment either by controls or by financial policy (e.g. R. F. Harrod, *Are these Hardships necessary?*, and J. R. Hicks, 'The Empty Economy', *Lloyds Bank Review*, June 1947). In Apr. 1947 the tax changes were designed to increase revenue but only by a very small amount. Income tax allowances were again increased, the loss being offset by a 12½ per cent. tax on distributed profits, by purchase tax increases, and by a very sharp increase in tobacco duty.



SAVINGS AND INVESTMENT COMPONENTS,
1945–50

far afield to examine it here),[1] emergency action had to be taken in the summer and autumn of 1947 to protect the foreign reserves. Convertibility was rescinded and imports cut; controls were strengthened and made to serve the export drive initiated by Sir Stafford Cripps, who was appointed Minister of Economic Affairs at the end of September. If these measures were going to succeed, a considerable increase in inflationary pressure would have resulted in spite of the projected investment cuts of £200 million. Consequently an autumn budget was introduced by Mr. Dalton which raised the new tax on distributed profits to 25 per cent., instituted the betting tax, and sharply increased purchase tax. This budget resulted in a surplus for 1948 of £628 million,[2] which, in the event, rather more than offset the improvement in the balance of trade (£515 million). In 1949 there was a small reduction in the surplus, and a small improvement in the balance of trade. In 1950 the considerable improvement in the balance of trade was almost exactly offset by a further increase in the surplus. Most observers seem to agree that the inflationary gap was very much smaller in these years, though many have argued that further deflation should have been undertaken.

The Chart shows that the deflationary influence of the public authorities and the balance of trade taken together ($A+D$), and also that of personal saving (E), have both remained rather constant in the years 1947–50 inclusive. The increase in gross capital formation (B) since 1947 has been offset, with almost mathematical exactitude, by an increase in gross business saving (C). Fiscal policy has contributed to this result by means of the differential tax on distributed profits, instituted in 1947, and also by the special initial depreciation allowance of 40 per cent. instituted in 1949 (but to be withdrawn in 1952). In very broad outline it can be said that in the three years, 1948–50, the economy had settled down to some kind of normality with respect to the main determinants of national income; foreign trade was more or less balanced; personal saving

[1] But the effects of the premature attempt to make sterling fully convertible (in pursuance of the Anglo-American Loan Agreement) in July 1947, and also the effect of the abandonment of price control in the U.S.A. in 1946 must not be forgotten. The latter increased the price of imports without, owing to inelasticity of supply, countervailing advantage to us in increased exports.

[2] Sir Stafford Cripps's budget of Apr. 1948 made tax changes estimated to reduce revenue slightly (no account being taken of the Special Contribution, which must be reckoned as capital taxation).

was running at around £300 million, with a public surplus of about £600 million when trade was balanced; inflationary pressure, in the consumption good market at least, had mostly died down; new investment was being offset by business saving. This pattern might almost have been achieved a year earlier if the budget of April 1947 had been fiercer by about £300 million, and if the foreign balance in that year had not been allowed to deteriorate.

The figures for the period disclose no sharp break; in particular there seems little justification, at least as far as fiscal policy is concerned, for dividing it (as has become fashionable) into Dalton-inflationary and Cripps-deflationary periods. The most that can be said is that, *ceteris paribus*, the rapid reduction of the public deficit in 1945 and 1946 should not have been slowed up so much in 1947. But Mr. Dalton's emergency budget in the autumn of that year retrieved the mistake, and largely set the pattern for 1948 and subsequent years.

The structure of taxation

Above we considered how the total volume of taxation should be determined by the requirement that the aggregate demand for consumption goods should equal the aggregate supply. But we also noted that the total of taxation required for this purpose would depend on the tax structure. We must now consider the other objectives, which may determine the form of this structure; and we will see how the fiscal means, which serve these various ends, may conflict with each other.

1. *Redistribution and employment.* Almost as important as the full-employment aim is that of so arranging taxes that the rich pay proportionately most. In pursuing this policy the Government raises far more taxation than is needed for the purposes of public saving, and essentially communal expenditure. Thus in 1950 the total of all taxes was approximately £4·5 thousand million, while *net* taxes on income (after subtraction of subsidies) were about £2·4 billion. The difference is made up of nearly £2 billion in subsidies and £229 million in capital taxation.[1]

The subsidies consist mainly of free education and health services, pensions, social security benefits, the food subsidies, and a large number of miscellaneous items. With unimportant exceptions (e.g. the subsidization of civil aviation) these subsidies are

[1] See Table 1, p. 186.

redistributive in both intent and effect. On the other hand, they are not an ideal means of attaining a given redistribution of purchasing power from rich to poor because everyone, almost without exception, is both indirectly taxed and indirectly subsidized.

The regressive nature of indirect taxes has been greatly ameliorated by the policy of subsidization. Net indirect taxes now form a very much lower proportion of the total. In 1938 net indirect taxes were 65 per cent. of the total; in 1945 only 40 per cent., and in 1950 33 per cent. But since household goods, entertainments, drink, and tobacco are taxed at rates of approximately 20, 50, 100, and 400 per cent. respectively, it would appear that the same redistributive effect, arising out of a reduction in the proportion of net indirect taxation, could have been achieved, without indirect subsidies, by reducing positive taxes. This is false in so far as those with large families, and the extremely poor, pay no income tax and consume very little of the taxed goods which are mostly in the semi-luxury class; but it would probably be possible to deal with this difficulty by an increase in pensions and family allowances, which might still allow a considerable reduction in positive taxation.[1] The answer to the question whether or not this would be a good thing to do, depends partly on whether it is positive taxation alone, or net taxation, which must be considered as contributing to the burden of taxation. We shall deal briefly with this question in (6) below.

We have seen that direct taxation forms a much higher percentage of the total than in 1938. The progressiveness of the tax structure has been increased, not only by this means, but also by a considerable increase in the progressiveness of income taxes. This is shown in Table 2 (p. 187). The increase in the standard rate from 5*s.* 6*d.* in 1938 to 9*s.* in 1945–50, plus the increase in the profits tax from 5 per cent. to 10 per cent. on undistributed and 25 per cent. on distributed profits (1947–50) has also contributed by keeping the net earnings of companies, available for distribution to equity shareholders, below what they would otherwise have been. Finally, the extent and progressiveness of capital taxation have been increased from the comparatively modest levels of 1938–9, when an estate of £50,000 paid 15 per cent. duty, and the rate rose only to

[1] Unfortunately nothing very definite can be said about the distributional effects of changes in indirect taxes and subsidies. This is because adequate up-to-date family budget information does not exist.

34 per cent. for an estate of £500,000. In 1945–6 the corresponding rates were 19½ per cent. and 44 per cent., and in 1949–50, 35 per cent. and 70 per cent.[1] In contrast with the income tax structure the greater part of these increases occurred after 1945.

Although the 1949–50 income and surtax structure can be seen to be much more progressive than that of 1938, nevertheless it is somewhat less progressive than that of 1945. Between 1945 and 1950 income tax concessions resulted in greater absolute gains for the better off.[2] This only ceases to be true in the very high income ranges, where there was no change in progression. Up to about £1,000 per annum the single man also gained more than the married man with three children. The increases in subsidies, pensions, and family allowances, between 1945 and 1950, more than offset the relatively greater gain of the single man, but do not serve to offset the reduced progression within each family category.

No assessment of the total effects of fiscal policy on the distribution of real or money incomes, or property, can be attempted here. For the year 1937 it was undertaken by Dr. Barna,[3] whose investigation was, however, concerned with the redistributive effect on real income of all public finance and not merely of fiscal policy as we have defined it. Dr. Barna divided government expenditure between the categories 'divisible benefits' and 'indivisible benefits'. Broadly speaking the benefits of some kinds of government expenditure are divisible, i.e. roughly allocable at least to different income groups, even if not precisely to families or individuals. Our definition of subsidies, which depends on the latter consideration, is therefore different from Dr. Barna's divisible benefits. But the difference would not greatly affect the broad conclusions reached by Dr. Barna. These were: 'Altogether the upper and middle classes paid £594 million more in taxation than the cost of allocated benefits conferred upon them, while £76 million was conferred upon the working classes by allocated benefits in excess of tax payments by them.' Roughly speaking, this can also be taken

[1] In the earlier period legacy duties, since repealed, were in operation. But if the estate was left in lineal descent they amounted only to 1 per cent.

[2] This is what is here meant by 'less progressive', although it could be taken to mean that the proportionate increase in large incomes exceeded the proportionate increase in small ones. Both definitions can be paradoxical, and both are persuasive.

[3] *Redistribution of Incomes through Public Finance in 1937* (O.U.P., 1945), ch. xvi, esp. p. 202.

as an indication of the redistributive effect of *fiscal* policy in 1937.[1]

A comparison on the same lines between 1938 and certain post-war years has been made by Mr. Findley Weaver.[2] He concluded that the whole of the improvement in working-class standards of living resulted from their higher incomes under full-employment conditions. In 1948, for the working class, increased taxes were in excess of increased benefits. Furthermore, allocable benefits no longer exceeded taxes. Prima facie it might, therefore, look as if public finance has become less, rather than more, redistributory. This may, in a sense, be true; but it is misleading. First, the increase in working-class 'incomes' after redistribution has just about kept pace with the increase in gross incomes, while for the middle and upper classes it has lagged well behind. This is explained by the relative growth in unallocable 'benefits', including the public surplus which is itself, to some extent, necessitated by the relative increase in gross working-class disposable income. Thus, in a broad sense, fiscal policy has contributed to the raised standards, even although, in a narrow sense, they can be attributed to other causes, such as full employment and inflation. Furthermore, the effect of fiscal policy in achieving the increase in company saving since 1947 must not be neglected, since this also contributes, even if in a roundabout way, to higher working-class standards. Secondly, important changes have, as a result of fiscal policy, undoubtedly occurred *within* the working classes, benefiting the sick, aged, and those with large families, at the expense of the rest.[3]

Before leaving the subject of distribution it must be noted that the more the rich are taxed the higher must total taxation be in order to make the aggregate demand for consumption equal to the aggregate supply. An increase in the progressiveness of the tax structure is likely, *ceteris paribus*, to reduce the amount of private saving, with a resultant and equal increase in the amount of taxation required. It is widely believed that the limits of fiscal policy have in this respect been reached; and that any further taxation of

[1] The estimates include an allowance for the income-equivalent burden of death duties (see Barna, op. cit., ch. viii).

[2] 'Taxation and Redistribution in the United Kingdom', *Review of Economics and Statistics*, Aug. 1950.

[3] For some confirmation of this see Seebohm Rowntree and G. R. Lavers, *Poverty and the Welfare State.*

the rich would be very largely ineffective both as regards the redistribution of *consumption*, and for the purpose of 'closing the gap'—both for the same reason, that property owners can sustain consumption by reducing their saving or even by selling assets. Income taxation of very high incidence tends to become in the nature of capital taxation, which redistributes property—and therefore redistributes consumption, but only very gradually. There is, however, a difference between attempting to reduce the consumption of the rich in the short run, and trying to stop any increase. The higher taxation of distributed profits may represent an attempt to stop an increase in the disposable income of the rich arising out of exceptional economic conditions. In the short run at least such taxation probably serves both purposes because it is unlikely that any resultant increase in company savings would be offset by a decrease in personal savings.

2. *Revenue*. It has long been an established, but not undisputed, principle of taxation policy, that, distribution apart, the best taxes are those which least affect the output or use of any good or service.[1] This principle not only has its roots in abstract economic 'welfare' theory, but is also in harmony with the common-sense notion that a tax is a bad tax if it is much 'evaded' by a reduction in the consumption of the taxed good, or in the provision of the taxed service; for if this happens the revenue disappoints. In this connexion it is important to note that income tax on earned income functions as an indirect tax on work, because the tax can be partly 'evaded' by reducing the amount and quality of the work done. Further, progressive taxation of incomes derived from the provision of capital can be partly 'evaded' by reducing saving, and by investing in less risky enterprises with lower yields. Consequently direct taxes also function as indirect taxes, not only on work, but also on saving and risk-bearing.

The above principle can also be extended to negative taxation. Distribution apart, the best subsidies are on those goods or services whose output and consumption would be least affected by the subsidization. To sum up, the theory is that the best way of taxing and subsidizing is to levy the taxes, or pay the subsidies on those

[1] More precisely the 'best' taxes cause the least divergence from the amounts of goods and services which would have been consumed or supplied if every man's gross real income had been miraculously equal to his actual post-tax income. Sometimes, however, the very intention of a tax is to cause such a divergence. See sections 3, 4, and 5 below.

goods or services for which either the price-elasticity of demand or the price-elasticity of supply is very small.

Leaving aside for the moment direct taxation, a glance at the indirect tax-structure, and changes in it, shows that it is very largely governed by elasticities of demand. Whole classes of goods, between which the elasticity of substitution is very low, are taxed at similar rates. The highest rates are reserved for habit-forming stimulants—alcohol and tobacco; and when, for instance, in 1949 it was found that the consumption of beer was beginning to fall, with a consequent fall in the revenue yield, the rate was reduced.

Subsidies also have been placed mainly on goods in inelastic supply or demand, though there are notable exceptions. The chief subsidies are on food and on health and education services. The total amount of food consumed is very much more dependent on the import policy of the Government than on prices. On the other hand, the output of British agriculture has been deliberately stimulated by higher rates of subsidy than are paid on imported foods. The same is, to some extent, true when we consider particular kinds of food; the notable example is milk, subsidies having been deliberately used for many years to increase its production and consumption. Again, redistribution cannot be the sole motive for providing free health services. In both these cases, a similar redistributive effect combined with a smaller interference with the *laissez-faire* pattern of consumption could have been achieved. The object is partly that there should be more health services than would be demanded at cost price. The same applies to education.

3. *Paternalism and external economies of consumption.* It is evident that, as we turn from positive to negative taxation, our list of motives for levying taxes in particular ways has become quite inadequate. External economies of consumption arise when an increase in the consumption of a particular good by Mr. Everyman will benefit others as well as himself. To some extent one may rationalize food and housing subsidies on such grounds. For instance, an increase in housing expenditure by some people will benefit others in so far as there is less risk of contracting diseases caused by bad housing conditions. Slums may be an offence and a nuisance to others than those who live in them. Similarly, the diet of one's neighbour may be (if somewhat remotely) of relevance to one's own health. Persuading a person, by taxes and subsidies, to adopt a pattern of consumption, which is regarded for the above

reason as socially more desirable than it otherwise would be, should be distinguished from 'paternalism' which refers to external influence over a person's consumption pattern justified on the ground that he does not choose wisely for himself.

We have seen that a good tax, for revenue purposes, should be on goods and services in inelastic demand or supply. A good tax, from the present points of view, is the exact opposite. Nevertheless, paradoxically, both ends may sometimes be served. The demand for spirits may be elastic at low prices, but inelastic at high prices. If this is true, a moderate tax on spirits must be regarded as paternalistic or as a means of avoiding what might be a public nuisance; higher rates of tax then become desirable for the yield. However, as far as fiscal policy is concerned, the Government shows more concern that we should do those things which we ought to have done, than that we should leave undone those things we ought not to have done. People are not trusted to educate their children enough, look after their health adequately, buy enough house-room, or drink enough milk. The extent to which such 'interference' may reasonably be held to be justified by the external economies argument, and consequently the extent to which it is deemed paternalistic (for good, or for ill), cannot be objectively assessed, since external economies are not measurable. Finally, it must be emphasized that these subsidies are also redistributive in intent and effect; but they cannot be rationally explained on redistributive grounds alone.

4. *Protection.* The taxation of imports, or the subsidization of home products, may be adopted for any of the motives already examined. Thus some imported luxuries, e.g. scent and furs, are heavily taxed as part of the process of making the tax structure adequately progressive. But tariff policy may also be used for special reasons; to ensure that certain strategic industries flourish (this is part of the reason for subsidizing agriculture); to protect an industry in difficulties as a result of foreign competition; to protect infant industries; to assist in achieving a foreign trade balance with better terms of trade than would have resulted without tariffs (this is another part of the reason for subsidizing agriculture, and also part of the reason for putting a tax on the home purchases of goods which might be exported); to stimulate a foreign trade surplus with consequent benefit to employment at home; to set up a trading area partly protected from outside competition

(e.g. imperial preference). An examination of all these, and other intricate aspects of fiscal policy, which arise when international trade is admitted into the argument, would take far more space than is here available. We can but refer the reader to the bibliography.

5. *Disequilibrium taxes.* Revenue, redistribution, paternalism, external economies, influencing the balance and terms of trade, and strategical considerations, about exhaust the purposes of taxation if we think only in terms of static equilibria. Consideration of the path of movement from one equilibrium to another discloses fresh possibilities. A traditional example would be the temporary subsidization, or protection, of a declining industry for the purpose of softening the brutality of the price mechanism. It could be claimed that such taxes are justifiable on distributional grounds; but that is not the whole story, for the price mechanism inevitably operates with some friction, the losses from which may sometimes be reducible if fiscal policy is used to assist the redeployment of productive resources. Thus unnecessarily large frictional unemployment may sometimes be prevented by such measures.

Our period has been one in which a very large changeover to exports from manufacture for the home market was required. Purchase tax may be thought of partly as of assistance in overcoming the inertia and friction involved in such a switch (but only partly, since revenue and influence on the terms of trade are also valid reasons for having purchase tax). Thus, for example, commercial vehicles were subjected to a 33⅓ per cent. purchase tax in 1950 for the express purpose of encouraging their export. Again, purchase tax on all cars was doubled in 1950 partly in order to increase exports and partly to discourage production of the highest class vehicles at a time when high class engineering capacity was required for armaments.

Another example of a 'disequilibrium' tax, though in a slightly different category, was the doubling of the tax on electrical appliances in April 1947, the object (apart from revenue) evidently being to relieve the existing disequilibrium in the electricity supply and coal-mining industries. Again the Chancellor's reasons for increasing the tobacco tax in that year was to save dollars. This hope was largely unjustified although the tax was amply rewarding from the revenue point of view.[1] Finally, part of the justification

[1] See Sir H. D. Henderson, 'Cheap Money and the Budget', *Economic Journal*, Sept. 1947.

for the cost-of-living subsidies, which we examine below, may be sought on dynamic and disequilibrium grounds; it is contended that they are a means of slowing up the cost-inflation which arises out of the disequilibrium in the labour market which must inevitably accompany very high levels of employment.

6. *Subsidization of the cost of living.* The food subsidies began during the war as part of the defence against inflation. The proportionate 'weight' of food in the cost-of-living index was then almost double the proportion of the factor cost of food to the total factor cost of consumers' goods. Alcohol and tobacco, on the other hand, were negligibly weighted. Consequently high taxation of the latter combined with subsidization of the former could prevent the index from rising and yet reduce real incomes and consumption by raising the actual cost of living. The official cost-of-living index was thus stabilized from 1941 to June 1947.

Since many wage-rates were tied by sliding scale to the index, and since the trade unions kept a wary eye on it, the food subsidies thus undoubtedly helped to restrain a wage inflation. This ingenious deception became almost impossible when the new, more realistic, retail price index was introduced in June 1947. After the war the food subsidies rose from £310 million in 1946 to a peak of £473 million in 1948; they have since been reduced to £405 million in 1950,[1] the intention of the Labour Government being, apparently, a stabilization at about that figure so that future changes in import prices, and home farm costs, would be fully reflected in market prices.

The question arises as to whether inflation can be discouraged by subsidizing the actual cost of living, and not an unrealistic index thereof. Any increase in subsidies for the purpose of preventing a fall in, or of raising, working-class standards, must be paid for by taxation not affecting the cost of living of the working class if an inflationary gap is also to be avoided. This implies further taxation of the richer classes. But we have already seen that, to a large extent, the richer classes can defend their living-standards by selling assets (just as the workers seek to defend, or promote theirs by wage demands). Indeed, in so far as the redistribution of consumption (in the short run) by fiscal policy has reached its limits, any attempt to restrain a wage inflation by such means must create a savings-investment inflation. The uses of such a policy are there-

[1] Cmd. 8203.

fore limited to offsetting such increases in the price of wage goods as themselves have a deflationary effect. Such is the case when import prices rise and the balance of trade can be permitted to deteriorate. It has been suggested that subsidies could be used in this way to prevent contagion from a foreign-induced inflation.[1] Such subsidies would also tend to prevent a regressive movement in real-income distribution.

Nevertheless, the subsidization of food and other necessities, even if paid for out of direct or indirect taxes which lower working-class standards as much as the subsidies raise it, may do something to restrain wage demands in the short run. This is because the prices of necessities play a larger role in causing such demands than does the actual cost of the whole bundle of goods which a typical working-class family buys. Thus the present retail price index could be reduced as much by reducing taxes as by increasing subsidies for a given decrease in net revenue;[2] but such a policy, even if desirable on other grounds, would be likely to provoke wage demands. To some extent, therefore, subsidies may be used for purposes of wage stabilization, either (*a*) because a decline in working-class standards is more acceptable if it comes about via increases in direct taxation or in the prices of semi-luxuries, or (*b*) as a tactical move when the situation is such that a wage-induced inflation is more to be feared than an excess of demand (such a situation being typical of war-time when the excess of demand is largely prevented from having harmful effects by means of physical and price controls), or (*c*) when the subsidies serve to offset a price rise which would in itself be deflationary.

Disincentives and other problems of high taxation

The theory of the harmful effect of taxation on the supply of labour is easily stated. It creates a gap, or increases an already existing gap, between the value of a man's marginal product and his net marginal earnings. A taxed worker, therefore, is increasing the value of the national income at a greater rate than he is increasing his own income. Consequently it is, in principle, possible to compensate him adequately for increased effort, or time, and still

[1] See T. Balogh, 'The Abolition of the Food Subsidies', *Bulletin of the Oxford Institute of Statistics*, Oct. 1948. For a further brief discussion of such a policy and its disadvantages, see W. A. Lewis, *The Principles of Economic Planning*, ch. 5.

[2] Cf. 'The Arithmetic of the Subsidies', *The Economist*, 15 Apr. 1950.

leave something over. In view of the concern currently manifested about incentives, the problem deserves special consideration.

It must first be emphasized that much of the reported slackness and absenteeism of the post-war years may result partly from the rise in working-class standards of living; as such it is undesirable only when the economy is aiming at some objective other than the satisfaction of individual wants—unless, of course, one thinks people ought to be compelled to work for their own good.

At given real-income levels the disincentive effect of marginal taxation may be analysed in terms of the elasticity of supply of labour with respect to net marginal pay. The more inelastic the supply the less is there need to fear the effects of taxation. In the short run many institutional factors limit the elasticity. For instance, many workers are not free to choose their hours of work; and even the speed of work is often partly dictated by collective agreements not often or easily revised. Furthermore, even if incentives are weakened, the habit of work dies hard; social *mores* also tell in its favour, and high gross incomes retain some glamour whatever the tax paid.

The behaviour of the index of industrial production from 1946–50 suggests that the harmful effects have been small, and perhaps more than offset by other factors such as the declining belief that it is possible to work oneself out of a job. But over a longer period the problem may become more serious. Collective agreements and customs, and working habits, may be revised. The greatly reduced real difference in the rewards of relatively skilled and unskilled work may gradually discourage people from acquiring and using such expertise. The greater social prestige of the jobs with higher gross earnings may itself be threatened. The possibilities of tax evasion may influence, in an undesirable manner, the occupational distribution of the working population, especially in the case of the higher paid people.

Little more than speculation on these matters is, at present, possible. Nevertheless, it can hardly be denied that a reduction in marginal rates of taxation might prove highly desirable. The problem has, of course, come into the limelight as a result of greatly increased taxation. Table 1 shows that the level of all net taxes falling on incomes has risen from 12 per cent. of the net national income (at market prices) in 1938 to 19 per cent. in 1950. This may not appear alarming. But positive taxes on income, taken alone,

have risen from 21 per cent. to 34 per cent.; while all positive taxes have risen from 22 per cent. to 36 per cent.

There is little doubt that it is positive taxation which is most relevant. This can be seen by considering the fact that if all consumption was 100 per cent. subsidized there would be no economic incentive for the individual to work, save, or take risks. At 1949–50 rates a single man, with average industrial earnings, was paying 24 per cent. direct tax on an increment of income, rising to 36 per cent. at £9 per week; the rate remained the same up to £2,000 per annum when it rose to 55 per cent., thereafter increasing to 97½ per cent. at £20,000 per annum. A married man with three children paid nothing up to £9 a week; the rate then rose rapidly to 24 per cent. at £12 a week, and to 36 per cent. at £16. It can be seen that, as far as the working-class man is concerned, there can be but little short-run disincentive effect from direct taxation, except in the case of the single man or woman. In the case of a married man with children the marginal rate became high (over one-third) only in the higher working-class income groups, and for the middle and upper middle classes.[1] Whether or not a man has children, the rates become very high indeed over £2,000 per annum.

Unfortunately the above figures give too favourable an impression, especially for the working classes. This is because indirect taxes may be just as relevant as direct taxes. The marginal incidence of indirect taxes on a person depends, of course, on what he would do with an increment to his income, on how much he would save, and on what he would spend the rest. Expenditure on such items as entertainment, travel, drink, and tobacco is probably very much higher for increments of income than for average incomes, especially in the short run. These outlets for income are taxed, on the average, at rates of 100 per cent. In the longer run, expenditure on food, rent, household goods, and other items would be adjusted upwards; but, in the short run, rationing, the housing shortage, and habit, greatly inhibit increased expenditure in such directions. Thus total marginal taxation may reach very high rates even for the working classes. A worker whose marginal expenditure was largely on beer, pools, tobacco, and entertainment might easily be

[1] These marginal rates were considerably lower for many workers than in 1945. The income tax concessions of 1945–50 were made with an eye on the problem of incentives.

paying as much as 60–70 per cent. of his gross marginal earnings in taxation. A reduction in the incidence of indirect taxation on the working classes, apart from being less regressive, may be almost as effective in increasing incentives as a reduction in direct taxation.

Our economy evidently has to place great reliance on increased leisure (with a nice untaxed book from the public library) not being a good substitute for one crowded hour of glorious life. In the case of the middle or upper classes, capital taxation must also be considered. It is often suggested, though there is little evidence either way, that high death duties considerably reduce their propensity to earn and save.

To the extent that high taxation reduces the incentive to provide productive services (working, saving, risk-taking),[1] it tends to thwart its own purpose of limiting the value of consumption to that of the available goods. Since part of the reason for high taxation (and especially for high marginal taxation) is the redistribution of consumption and property, it is evident that some conflict of ends and means exists. If the maximum redistributive effect is to be achieved without serious danger of inhibiting progress, or causing inflation, then it is important that people should not be taxed merely to benefit themselves. The food subsidies should be considered in this light. While tactical increases in indirect subsidies may often appear desirable for reasons discussed in (6) above, there seems to be little reason why they should have much *long run* effect on wage and price stabilization in peace-time, while their long-run effect on incentives may be serious, though this is by no means certain.[2]

It has been suggested that the burden of taxation might be reduced by means of a capital levy which could wipe out the national debt and so eliminate the taxation required to cover interest payments on it. Unfortunately, the resultant reduction in the yield of the existing tax structure would offset the interest on the extinguished debt. The reduction in the incidence of taxation would be, at best, negligible; and it might even have to be increased.

[1] Space prevents any separate discussion of the disincentive effects of taxation on the provision of the latter two services. Reference may be made to the bibliography.

[2] It may be argued that if indirect taxes reduce incentives, then indirect subsidies must increase them, and thus they cancel out. The difference is, however, that indirect taxes fall very heavily on marginal expenditure, while subsidies are mainly on intra-marginal 'necessities'.

There is only one sound purpose which a capital levy can serve; and that is the redistribution of property.

Summary

Fiscal policy has become, in peace-time, a very much more difficult art than it used to be, when it was thought that all that was necessary was to balance a modest public outlay. The more or less generally accepted aims of fiscal policy are now the preservation of full employment and the avoidance of inflation, to be combined (though this may be rather less widely accepted) with as large and as rapid a redistribution of wealth as is consistent with both the former aims and a steady growth of the national income. To all of this a fairly strong dose of paternalistic influence must probably be added.

The greatest difficulty which a government with these aims now faces is the combination of redistribution in a progressive economy with the avoidance of inflation.

The limits of the power of fiscal policy to reduce, in the short period, the consumption of the rich may have been reached or surpassed. It might still be possible to redistribute consumption as between those of moderate means, including the richer working classes, and the poor. But this would require still more progressive taxation of moderate earned incomes; which, in peace-time, from the point of view of incentives, might be very harmful.[1] Any further redistribution of consumption would require very extensive rationing; which, in peace-time, might also be very harmful to incentives, and would ultimately necessitate the direction of labour.

Greater equality, if production is not to suffer seriously, must probably come about through a redistribution of property. This, if it is to be a redistribution of private property, without any great increase in public property, requires that the poor should save;[2] which, in turn, is unlikely unless the value of money can be kept from falling. But, in general, the greater the equality of disposable income, and the more rapid the attempt to redistribute property, the smaller are overall savings likely to be.

The prevention of inflation, which is a paramount condition for

[1] Indeed, we have seen that for this very reason direct taxation in the moderate income ranges has been made slightly less progressive since 1945.

[2] Though a capital levy could, in principle, reduce the property of the rich up to the value of the national debt without increasing either the property of the poor or public property.

achieving the long-run ends—since inflation redistributes wealth in a haphazard and undesirable manner, and tends to undermine the social and ethical basis of a stable society—thus becomes more difficult. High defence expenditure, and a high level of investment, itself a precondition of progress, make the problem still more insoluble. But economic problems, being problems of choice, are, of course, always insoluble.

TABLE I.

Positive and Net Taxation (in £ million)

	1938	*1945*	*1950*
(1) Net National Income at market prices	5,384	9,580	12,448
(2) All positive taxes . . .	1,196	3,406	4,517
(3) *Less* 'capital' taxes* . . .	93	137	228
(4) Positive 'income' taxes total . .	1,103	3,269	4,289
(5) direct .	495	1,775	2,248
(6) indirect .	608	1,494	2,041
(7) (2) as percentage of (1) . .	22%	36%	36%
(8) (4) as percentage of (1) . .	20%	34%	34%
(9) Net income taxes† total . .	647	2,236	2,417
(10) direct . .	224	1,342	1,613
(11) indirect . .	423	894	804
(12) (9) as percentage of (1) . .	12%	23%	19%
(13) (9) as percentage of (4) . .	59%	68%	56%
(14) (11) as percentage of (9) . .	65%	40%	33%

Sources: Except as detailed in footnote †, the figures for 1938 and 1950 are the revised estimates of Cmd. 8203. The figures for 1945 are the unrevised estimates of Cmd. 7371. Therefore the figures for 1945 are not precisely comparable.

* Approximately four-fifths of stamp duties is classed as capital taxation.

† Subsidies subtracted from (4) include the official subsidies and transfers of the National Income White Papers plus a necessarily rather arbitrary estimate of the health and education expenditure falling within our definition of subsidies. The estimates for the latter for 1938, 1945, and 1950 were £145, £306, and £630 million respectively.

TABLE 2.

Effective Income Tax Rates in 1938–9, 1945–6, and 1949–50

Income before tax (£)	Incomes after tax (to nearest £)											
	Single man						Married man with three children					
	Income earned			All investment income			Income earned			All investment income		
	1938–9	1945–6	1949–50	1938–9	1945–6	1949–50	1938–9	1945–6	1949–50	1938–9	1945–6	1949–50
250	242	203	231	235	194	216	250	250	250	250	250	250
500	443	344	415	416	319	370	497	448	494	487	424	466
1,000	833	619	735	778	569	645	905	724	847	850	674	757
2,000	1,586	1,144	1,375	1,503	1,069	1,195	1,657	1,249	1,487	1,575	1,174	1,307
10,000	5,867	3,138	3,587	5,784	3,063	3,407	5,938	3,243	3,700	5,856	3,168	3,520
20,000	9,954	3,825	4,312	9,871	3,750	4,132	10,025	3,930	4,425	9,943	3,855	4,245
100,000	36,054	5,825	6,312	35,971	5,750	6,132	36,125	5,930	6,425	36,043	5,855	6,245

CHAPTER IX

MONETARY POLICY

By C. M. KENNEDY

THE most notable feature of the British Government's monetary policy in the years following the Second World War was the experiment in Cheaper Money undertaken by Mr. Dalton as Chancellor in 1945 and 1946. As an experiment it was undoubtedly a failure, but this unequivocal outcome has nevertheless left more questions unanswered than it has answered. The very considerable controversy which was aroused by the Cheaper Money drive both at the time and in later years was concerned not merely, or even mainly, with the wisdom or unwisdom of the Daltonian experiment as such. On that score there is in any case little difficulty now in forming a judgement: for, while it can be argued that once having been started the experiment should not have been allowed to fail in 1947, it would be difficult to maintain that the venture was not a mistaken one in the first place. What was just as much under discussion was a question more difficult to answer: to what extent, if any, the Cheaper Money drive had contributed to the difficulties encountered by the country in both its internal and its external economic affairs in 1946 and, more especially, 1947. Now the fact that so large a part of the discussion of Mr. Dalton's policy took this particular form is an indication that a more fundamental issue was involved. Underlying the differences of opinion as to the inflationary consequences of Cheaper Money was a conflict of views about the importance of monetary policy itself, and about the proper use which should be made of the monetary weapon in the general economic and financial policy of the nation. The controversy which was evoked by Mr. Dalton's campaign for Cheaper Money is thus best regarded as being one chapter, and by no means the final one, of the wider debate; and the Daltonian experiment itself as being one episode in the evolution of a monetary policy suitable to modern conditions.

If this interpretation is correct, it goes without saying that no proper understanding of British post-war monetary policy can be gained without reference to the developments in monetary theory

and practice which had taken place during the inter-war period and in the war years. The inter-war period was productive of perhaps more ideas in monetary theory than in any other field of economics. The dissatisfaction which had been felt with the orthodox financial policies pursued during the Gold Standard period after the First World War found its most powerful expression with the publication by Keynes in 1936 of *The General Theory of Employment, Interest and Money*.[1] There Keynes argued that the main objective of monetary policy should be the maintenance of a high level of employment. In the conditions of under-employment existing when the *General Theory* was being written this meant that control should be exercised in an expansionist direction. Keynes's advocacy of monetary expansionism in the *General Theory* did not, of course, make its first appearance there, but is to be found in his earlier writings and notably in the Report published in 1931 of the Committee on Finance and Industry,[2] of which Keynes was a member. The *General Theory*, however, by providing a complete theoretical basis for his more practical recommendations, finally won over many who earlier had remained unconvinced and, by 1936, expert opinion on monetary matters was to a large extent expansionist in outlook.

The problem of what should be the role of monetary policy in conditions altogether different from those existing in the inter-war period and in which inflation rather than unemployment might be the danger received little attention until the outbreak of war. And by that time thought on monetary matters had taken another turn. The mainly negative results of the Oxford Economists' Research Group's inquiry[3] into the influence of interest rates on business decisions had delivered something of a cold douche to any hopes that monetary measures would be effective in maintaining a high level of demand. Reliance would in the future be placed on more direct methods of stimulating demand. But if monetary policy had lost something of its importance, the expansionist outlook in monetary matters had in no way altered. For one thing, there was no reason why monetary policy should not play its part in maintaining full employment however small a part it might be. Moreover, low

[1] Macmillan, 1936.

[2] H.M. Stationery Office, 1931 (Cmd. 3897).

[3] *Oxford Economic Papers*, No. 1. Reprinted in *Oxford Studies in the Price Mechanism*, O.U.P., 1951.

interest rates, though they might have little effect on the decisions of business men, were still a matter of intimate concern to the Exchequer, which stood to gain by any reduction in the cost of borrowing.

It was probably this last consideration, as much as the impact of Keynes's expansionist ideas, which had led the Chancellor to initiate an era of Cheap Money in 1932. During the Gold Standard period high interest rates had been necessary in order to try to prevent the loss of gold and reserves of foreign exchange. With the collapse of the Gold Standard and the devaluation of the pound in 1931, an opportunity arose of substantially reducing the burden of the National Debt, a burden which had grown much heavier as a result of the war, financed as it had been for the larger part on a 5 per cent. basis. Early in 1932 Bank Rate was reduced by successive stages to 2 per cent., at which level it was held until the outbreak of the Second World War. In the summer of the same year a very high proportion of the £2,000 million odd of 5 per cent. War Loan outstanding was successfully converted into 3½ per cent. War Loan. Although many of the techniques of monetary control which were later to play so important a part in the implementation of the country's financial policy were first introduced during the Cheap Money period of the thirties, it cannot be said that they were applied very consistently at that stage. Nor, indeed, was the goal of lower interest rates pursued with any very great resolution. The long-term rate of interest, after falling to below 3 per cent. in 1935, was allowed to rise with the recovery in 1936 and 1937 and with the rearmament programme in 1938 and 1939. At the outbreak of war it looked very much as if the authorities were again to have recourse to the traditional war-time method of encouraging saving by higher interest rates. Bank Rate was raised above 2 per cent. at the end of August 1939, and there was a further rise in the long-term rate. Fortunately, these were to be no more than temporary developments.

It would be difficult to over-estimate the importance of the revolution in monetary policy, largely inspired by Keynes, which occurred in the late autumn of 1939. 'Revolution' is perhaps not the right word, for what happened was not so much a change of policy as a reversion, after the aberration in September and October, to a programme of Cheap Money. The circumstances were, however, entirely altered. The problem now was not to

stimulate demand but to curtail it. It was held, however, that this task could be performed more effectively by methods other than the raising of interest rates. So long as the expenditure of the private sector was limited by rationing and other controls, income-recipients would have little else to do with a large part of their earnings but to lend it to the Government. Even if they preferred to hoard their money, the Government could obtain the necessary finance from the banks by means of credit creation, and no inflationary consequences would result provided the increase in purchasing power was prevented from giving rise to an increased expenditure on goods and services. The practical consequences of the successful application of these ideas were far-reaching. The financing of the war on a 3 per cent. rather than a 5 per cent. basis prevented the nearly threefold increase in the internal National Debt from imposing what would otherwise have been an almost intolerable burden on the Exchequer in the post-war years: at the end of the war the interest-burden of the debt as a proportion of the national income was of the same order of magnitude as in 1919. Moreover, the new methods proved more effective than the old in keeping war-time inflation in check.

The composition of the internal national debt at the end of the war is shown in Table 1, where a comparison is also made with the years 1919 and 1939. It will be seen that the proportion of floating debt in the total had risen considerably as a result of war finance, and was greater than at the end of the First World War. Moreover, the average life of the dated stocks was somewhat shorter than in 1919: 60 per cent. of the dated stocks had a maximum life of less than fifteen years compared with 50 per cent. at the earlier date. At the same time, the maturities were rather more evenly spread, and there was in 1945 no single stock forming a substantial proportion of the dated stocks as had been the case with the 5 per cent. War Loan in 1919. In this typical post-war situation, orthodox considerations would have called for a policy of 'funding the debt'—of gradually replacing the swollen floating debt by longer-term loans and of converting some of the dated stocks, as they matured, into loans repayable only by government option. This had been the policy carried out after the First World War, and its effects on the composition of the debt can be clearly seen by a comparison of 1939 with 1919. The new Chancellor, however, had other ideas.

It is not difficult to discover the reasons which led Mr. Dalton

to pursue the aim of still cheaper money in 1945. It must be remembered for one thing that, rightly or wrongly, the Labour Government was at the time as much afraid of the distressful consequences of too much deflation as of the dangers of inflation. Moreover, the experience of the war years had provided a remarkable vindication of the idea, already current before the war, that monetary management was relatively of little importance in the control of the total demand for goods and services, especially when more direct methods of regulating the expenditure of the public

TABLE I

Composition of the Internal National Debt as at 31 March

	1919 *per cent. of total debt*	*1939* *per cent. of total debt*	*1945* *per cent. of total debt*
Floating debt	23	13	29
Dated stocks	68	35	37
Funded debt	5	46	16
Other debt*	4	6	19

* Savings Certificates, Defence Bonds, Tax Reserve Certificates, Terminable Annuities, &c. Source: *Abstract of Statistics.*

were available. Many of these controls on expenditure could in any case be made to play a useful part in the maintenance of full employment when the time came for that to be a problem. In particular, the limitation of investment expenditure in the private sector would effectively keep in reserve a number of unrealized investment opportunities, so that a well-judged relaxation of controls would bring about the release of a substantial volume of investment demand whenever it should be required. There was also the narrower point of view of the Exchequer to be considered. While the opportunities for reducing the interest-burden of the longer-term debt would not immediately be nearly as great as in the early thirties, when the very large amount of 5 per cent. War Loan was ripe for conversion, nevertheless the prospect of budgetary deficits for a number of years made the rates at which the Government could borrow a matter of some concern to the Exchequer. A lowering of short-term rates would have more immediate advantages: not only would it reduce the interest-cost of the floating debt as a whole, but, since a large part of the sterling balances of overseas countries was held in London in the form of

Treasury Bills, its effect on the balance of payments would also be favourable. Finally, there was one probable consequence of Cheaper Money which had particular attractions for a Labour Government. Although not nearly so important as a fiscal policy designed for the same end, lower interest rates would in time have a quite considerable effect on the distribution of income. What is more, any redistribution would be at the expense of the *rentier*.

It will be seen, therefore, that the motives behind the Cheaper Money drive were several. This point deserves emphasis, for it has been overlooked in one of the lines of criticism to which the policy was subjected. It was argued, at the height of the Cheaper Money controversy, that there was something irrational in having a disinflationary fiscal policy while monetary policy was all the time pulling in the opposite direction. Such an argument, however, could only be justified if it were assumed that all government policy had a single objective—disinflation. The aims of government policy are certainly more complex than this, and there is no reason why monetary policy as such should not have some inflationary pull, so long as the Government's financial and economic policy as a whole has the required disinflationary effect. To say this is not, of course, to suggest that the inflationary dangers of Cheaper Money may not have been underestimated by the Chancellor. This is a question important enough to be discussed in some detail.

The influence of the rate of interest on the total expenditure of the country on goods and services must make itself felt either through private investment, central and local government expenditure, or through consumption. In the case of private investment expenditure on fixed capital, the existing controls were likely to prove effective. The limitation of new issues on the Stock Exchange would not by itself have been sufficient in view of the highly liquid financial position of many businesses at the end of the war, but the building and material controls could be used to restrict such investment to any required volume. On the other hand, it is possible that the ease with which businesses could obtain working capital by realizing their holdings of securities on attractive terms may have played some part in accentuating the difficulties of transition to a peace-time economy. At a time when there was an acute shortage of certain materials, the far-sighted entrepreneur no doubt wished to accumulate stocks of other materials and build up or maintain a labour force in anticipation of some particular scarce material

becoming available. It is probable therefore that in the immediate post-war years there was some tying-up of material and labour resources in uses that were, at any rate temporarily, unproductive; though how far, if at all, the high prices of securities may have contributed to this is of course very difficult to assess.

It is, I think, in any case undeniable that in post-war conditions a very sharp rise in interest rates would have been necessary, in the absence of other methods of control, to keep private investment expenditure within reasonable bounds. Small changes in rates were unlikely to have much influence. This is not so true of the capital projects of the central government and, particularly, of local authorities. The cost of borrowing is a more important part of the total cost of such projects, because in general the investment has a longer life than is the case in industry and because it is less risky in nature. Nevertheless, it is doubtful to what extent lower interest rates were responsible for the ambitious capital programmes of 1946. Certainly other factors were also at work, and many of the elements of the programme—e.g. housing—were a matter of quite definite policy.

It is possibly over consumption that the greater miscalculation was made. In the *General Theory*, Keynes had tended to belittle the influence of the rate of interest on decisions to save, and by the beginning of the war the doctrine was widely accepted that the demand for goods and services on the part of consumers as a whole depended almost exclusively on the amount of income received and on its distribution among different income classes. This view is probably an oversimplification. One of the direct consequences of Cheaper Money was a rapid rise in share values both in the gilt-edged and in the equity section of the Stock Exchange; and there may well have been a tendency for the owners of shares and other property to treat part of their capital gains as income, spending it on consumption goods. Moreover, there were in the post-war situation two special factors which would make for a less close dependence of consumption demand on current income than at other times. In the first place, there existed as a result of the privations of the war a large pent-up demand for consumers' goods and services, mainly for goods of a semi-durable kind which needed replacing. Secondly, the very high taxation imposed during the war had brought about a considerable redistribution of income, with the result that many people in the higher and middle income groups

were no longer able to maintain their pre-war standard of life on their current net incomes. For both these reasons, a certain amount of living on capital was to expected in the post-war years, and it is reasonable to suppose that such dissaving received some encouragement from the fact that past savings could be realized not only without loss but at a substantial profit.

This whole question is not one about which it is at all easy to form a reliable judgement. That the Cheaper Money drive exerted some inflationary influence on the economy would not, I suppose, be denied; and it may very well be that this influence was underestimated at the outset. But it is also only too easy in retrospect to over-estimate it, and to attribute the inflationary stresses of those years in too large a measure to the controversial monetary policy being pursued at the time. It will have been clear from the foregoing analysis that inflationary pressures were in any case to be expected in all sectors of the economy, and whether or not these pressures were aggravated to any appreciable extent by Cheaper Money remains in the writer's view a matter of doubt.

The methods by which the aim of cheaper money can be achieved are essentially simple ones. In effect the Chancellor is wishing to dictate the terms on which the Government can borrow and, in order to do this, he must either persuade the public to lend on those terms or obtain the money from the banks, a sufficient amount of credit having been created to make this possible. From the beginning of the war until the fall of the Labour Government in 1951, and to some extent also in the Cheap Money era of the thirties, such creation of credit took place automatically in response to the needs of the money market and no longer on the initiative of the Bank of England. This came about as a result of the 'ever open back door' policy of the Bank, by which it undertook to deal in Treasury Bills at a given market rate, not at a penal rate as had been the case with Bank Rate. Thus, if the banks or the money market found themselves short of funds, Treasury Bills could be sold to the Bank's operator in the market, with effects on the credit basis similar to those of an open-market operation of the old style.

As a result of the Bank's 'open back door', the authorities had virtually complete control over the rate of interest on Treasury Bills. The rate in the market was unlikely to depart significantly from the rate at which the Bank was prepared to operate, and the market was always able to obtain from the Bank sufficient funds to

take up whatever amounts of new Bills the Treasury decided to issue. Moreover, for use as a 'long-stop', the Treasury had the power since early in the war to require the banks to lend money in the form of Treasury Deposits at a rate determined by the Treasury itself, so that if the banks were unwilling for any reason to take up enough Bills, the Treasury could obtain the finance it needed in this more direct way. In practice the banks were unlikely to follow this course, since they preferred to hold Bills as assets rather than Treasury Deposit Receipts, on account of the greater liquidity of the former.

The Government's power over the rates at which it can borrow at longer term is more limited. These rates are determined on the Stock Exchange, and the problem is one of persuading the public to lend on terms advantageous to the Government. Much can be done by psychological methods. If the public can be convinced that interest rates are going to fall further in the future, then speculators will buy securities in the hope of making capital gains and the desired fall in the rates will actually take place. If, however, such methods are ineffective, then the Government has no option but to obtain its necessary finance from the banks by increasing the floating debt. This will have a double effect. On the one hand, any new funds coming onto the gilt-edged market can only be used, in the absence of government borrowing from the market, to bid up the prices of existing securities. Secondly, the banks themselves will be unwilling to hold too great a proportion of liquid assets and will expand their holding of securities accordingly. Thus, as a result of the Government's resorting to floating debt finance the long-term rate of interest will gradually fall until it reaches a level at which the Government is again prepared to borrow—but this has been achieved only at the expense of a credit creation sufficient to enable the banks to take up the larger volume of Treasury Bills. An example of the successful application of these methods of floating debt finance is provided by the war years, when, as has been noted earlier, the long-term interest rate was first reduced to about 3 per cent. and then maintained at that level. Had the authorities wished, interest rates could undoubtedly have been made to fall even further; but in fact this was prevented by the operation, for the greater part of the time, of the system of 'tap' issues—that is, of securities continuously on offer for a period —which effectively provided a lower limit to the fall in rates.

Apart from these methods, the Chancellor has at his disposal for use in support of the gilt-edged market the substantial resources of what have become known as the 'departments'. These consist mainly of the funds controlled by the National Debt Commissioners such as the Post Office Savings Bank, the trustee savings banks, and the social insurance funds, but also important are the funds held in the Exchange Equalization Account and in the Issue Department of the Bank of England. The role of the departmental funds is particularly important at the time of a conversion operation or of the floatation of a new government issue. In the former case, it would seem that the funds are used to buy up a large proportion of the stock about to be converted, thus ensuring the success of the operation. In the latter case, the 'departments' act as underwriters, taking up whatever amounts of the new issue are left by the public and gradually selling the new stock on the market later. By these means the dislocation of the gilt-edged market which would otherwise be brought about by a conversion operation or an important new issue of stock can successfully be prevented. But the departments can be brought in also at other times to support the gilt-edged market. If they happen to be accumulating new funds, these can of course be used to purchase securities on the Stock Exchange; but, even when this is not the case, they can sell any short-term assets, such as Treasury Bills, which they hold and buy securities with the proceeds. The consequences of the latter operation are essentially the same as in the case described above where the Treasury resorts to floating debt finance. In particular, a sufficient amount of credit must be created to enable the banking system to take up the increased supply of Bills coming onto the market. There are, however, two differences between this method of 'unfunding' the debt and the more straightforward one. In the first place, the buying of securities by the 'departments' exerts a positive stimulus to the gilt-edged market as compared with the negative stimulus brought about by the absence of government long-term borrowing. Secondly, the 'unfunding' process can be to some extent concealed, since there is no detailed information released about the operations of the departments, and since the total floating debt in existence has not altered but only its distribution as between different holders. It is not, however, possible to conceal the creation of credit, and it is therefore the increase in the figure for deposits

which gives the clearer indication of the extent to which 'unfunding' of the debt has taken place.[1]

The actual history of Mr. Dalton's experiment can be quickly told. The first hints that the matter was under consideration were given in September 1945, and the first steps taken in October. The initial attack was launched against the short-term rates and, as was to be expected, the objective was quickly gained. The rate on T.D.R.'s was brought down by $\frac{1}{2}$ per cent. to $\frac{5}{8}$ per cent. and the Bank's support rate for Treasury Bills by a similar amount to $\frac{1}{2}$ per cent. Thus, in a short space of time, the interest rate the Government had to pay on the floating debt was nearly halved. In his budget speech later in the same month, Mr. Dalton made it clear that he was turning his attention also to the rates on medium and long-term securities. Action was not long following. Before anything could be done, the existing tap issues of $2\frac{1}{2}$ per cent. National War Bonds 1954–6 and of 3 per cent. Savings Bonds 1965–75 had to be got out of the way. At the end of November, therefore, Mr. Dalton announced that the taps would be turned off on 15 December. At the same time, notice was given of the repayment of the $2\frac{1}{2}$ per cent. Conversion Loan 1944–9 on 1 April 1946, and of $2\frac{1}{2}$ per cent. National War Bonds 1945–7 on 1 July. In each case, there was to be a conversion option into $1\frac{3}{4}$ per cent. Exchequer Bonds 1950 on 1 April 1946. The tactics behind the simultaneous announcement were not difficult to discover. The repayment of the two stocks at dates well in advance of their final maturities and the offer of conversion into a stock which had earlier proved unattractive on issue were intended to show which way the wind was blowing and to encourage a rush of subscriptions to the existing tap issues while the tap was still flowing. These tactics met with considerable success, as also did the conversion offer itself, although large amounts of the convertible stocks were probably in the hands of the National Debt Commissioners before the actual conversion in April 1946.

Meanwhile, a rate of $2\frac{3}{4}$ per cent. on a 'long' had been tested in the market in February by the offer of conversion by the Metropolitan Water Board of its $4\frac{1}{2}$ per cent. stock into a $2\frac{3}{4}$ per cent. stock with dates 1971–6 at a price of 99. The Chancellor was not,

[1] Although by no means a perfect one, because of the repercussions on the banking system of any changes in the volume of Bills held outside the system and especially by foreigners.

however, content with this and in May declared his immediate aim of seeing British credit on a 2½ per cent. basis. In the same month, the tap issue of a new stock, 2½ per cent. Savings Bonds 1964–7, was announced, and also the repayment, or conversion into the new stock, of 2½ per cent. National War Bonds 1946–8. The terms of the new stock were in fact pitched somewhat 'under the market'. Because of this, the new tap issue was extremely successful, over £400 million of the stock being taken up before the tap was closed after little more than seven weeks, but, on the other hand, there was a temporary fall in the price of other government securities as the market fell into line with the terms of the new stock. Such cautious tactics as these were not to be repeated when the Chancellor announced his next and last major operation in the management of the long-term debt later in the year.

In the meantime, the rates for small savings had not been ignored. The new issue of Defence Bonds which were on tap from 1 May carried a rate of interest of 2½ per cent. as against the 3 per cent. of earlier issues. Rates of interest on Savings Certificates were also reduced later in the year. At the same time, the rates at which the Government lent money were reduced as well as those at which it could borrow; and the local authorities, apart from being able to float loans on the market at the lower ruling rates, had the advantage from June onwards of being able to borrow from the Local Loans Fund at rates reduced by from ½ per cent to ¾ per cent.

The tap issue of the new 2½ per cent. Treasury Stock 1975, or after (known in the market as 'Daltons'), and the conversion into it of the 3 per cent. Local Loans Stock, marked the summit of the Cheaper Money drive. When the announcement was made in October, the terms were well 'above the market', and the price of government securities on the market immediately rose in consequence. For the same reason, the new issue proved a comparative failure when the tap was opened at the end of the month, although the conversion of Local Loans had more success owing to the large holdings of the National Debt Commissioners. Nevertheless, the Chancellor had the satisfaction of achieving his immediate aim—the issue at par of an irredeemable stock bearing 2½ per cent. interest.

This achievement had not been possible without a further increase in the floating debt. Although the proportion of floating

debt in the total internal debt had fallen from 29 per cent. at 31 March 1945 to 28 per cent. at the same date in 1947, the fall had taken place entirely during the first of the two financial years. In absolute terms, the floating debt rose from £6,116 million at 31 March 1945 to £6,487 million in 1946 and further to £6,995 million in 1947. The extent to which the Treasury had recourse to floating debt finance in the months preceding the two principal market issues in May and November of 1946 is shown in Table 2, which gives figures for net government borrowing by floating debt and by subscriptions to market issues in 1946.

TABLE 2[1]

Central Government Net Borrowing in 1946

Period ended	*Weekly averages*		
	Total net borrowing	*Floating debt*	*Subscriptions to market issues*
		£ thousand	
26 January	−17,620	−17,493	384
23 February	−16,443	−3,705	—
31 March	43,127	53,044	329
27 April	33,806	33,463	20
25 May	18,369	−80,479	23,438
30 June	34,610	−8,732	37,751
27 July	13,632	−3,553	33,692
31 August	42,497	71,232	10
30 September	24,490	31,879	—
26 October	12,866	−2,137	—
30 November	12,611	−14,983	21,632
31 December	32,340	16,826	10,054

Source: *Monthly Digest of Statistics.*

As has been explained above, these figures of the floating debt take no account of any unloading of Bills onto the market by the

[1] This table is intended to bring out the absolute expansion of floating debt assets in the months preceding the market issues, and for this reason no attempt has been made to correct the figures for seasonal variation. Some indication of the abnormal nature of the floating debt figures is, however, given by a comparison of the figures with those for total net borrowing. Thus, for example, the particularly heavy borrowing by floating debt in the third quarter, before the issue of 'Daltons', was required in order to meet the repayment of the two issues of National War Bonds. To meet this need, there was a sharp rise in the total amount outstanding of T.D.R.s, which, up to that time, had gradually been allowed to fall from its high figure at the end of the war. Thus the gilt-edged market at this time was assisted not only by the expansion of the credit base but also by the reinvestment of money received in repayment of National War Bonds.

departments which may have taken place. For this reason, the behaviour of total bank deposits is perhaps more instructive (see Chart, p. 207). The first stage of the Cheaper Money drive—up to February 1946—had been accompanied by only a moderate increase in deposits, and the yield on $2\frac{1}{2}$ per cent. Consols had been successfully brought down from 3 per cent. to $2\frac{3}{4}$ per cent. Thereafter, greater difficulties were encountered, and in one year, from January 1946 to January 1947, the total deposits of the London clearing banks increased by no less than £900 million. This more rapid rise in deposits is an indication of the increasing reluctance of the public to buy long-term government securities. The buying of bonds by speculators hoping to make capital gains, which had assisted the market in the early stages, gave place in 1946 to selling on account of fears that the lower rates could not be maintained.[1] The anxieties of the 'bears' were no doubt reinforced by the growing opposition which the Cheaper Money policy began to meet in 1946, and which reached its climax with the publication in January 1947 of the annual statements of the chairmen of the 'big five' banks. The arguments used by the chairmen might differ, but the verdict was all but unanimous.[2]

What further creation of credit might have been necessary in order to hold the $2\frac{1}{2}$ per cent. line and enable the market to withstand the shocks which were coming to it in 1947 can only be conjectured. No doubt, if the Government had been able to demonstrate that it would support the gilt-edged market in all circumstances, the fears of the 'bears' would sooner or later have been assuaged and confidence restored to the market. Credit created merely in order to meet the liquidity requirements of bearish speculators would in any case have had no inflationary effects on the economy. As was argued above, however, there is reason to believe that the rise in security values during 1946 may have provided some extra stimulus to expenditure; and, in so far as this was the case, any attempt to sustain security values in 1947 by further

[1] The rise in deposits during 1946 cannot, of course, be entirely put down to this factor. Both real and money national income were rising during the year, and more money was required for transactions purposes as well as to meet the liquidity requirements of speculators.

[2] It should perhaps be said that the bank chairmen did not recommend the reversal of Cheaper Money but only that a halt should be called to it. Even so, there is little doubt that their statements, and the publicity given to them, had a considerable effect on market sentiment.

creation of credit would have served to prolong these inflationary tendencies. In the event, at any rate, counsels of caution were to prevail, and the market received little support when it was shaken by the fuel crisis early in 1947. The dollar crisis in the late summer of the same year provided the finishing touch, and, although an attempt was made to support a recovery in the autumn, by the end of the year the yield on 2½ per cent. Consols was back to where it had started from—above 3 per cent.

After Sir Stafford Cripps had become Chancellor in November 1947, the Government gradually settled down to what has become known as a 'neutral' monetary policy. Short-term rates were to be kept low as before, but the yields on government securities were to be allowed, in the main, to look after themselves. There was much less evidence of government support of the market except on special occasions—at the time of the great nationalization issues and, notably, in November 1949, after the devaluation of the pound, when the government broker entered a market both demoralized and technically 'oversold' and caused a rise of three full points in the 'longs' by little more than his mere presence. Bank deposits continued to rise, though slowly, during 1948, but then remained steady for the next two years at a level of about £6,000 million. The yield on 2½ per cent. Consols rose to 3¼ per cent. in the middle of 1948. It recovered somewhat during the second half of the year, but rose sharply again with the devaluation in 1949 and was above 3½ per cent. for the greater part of 1950.

By 1947, the period of post-war government borrowing from the long-term market had ended, and the history of the national debt in the next few years is, in the main, the history of the nationalization issues. The small amount of the Bank of England's capital stock had already been vested in the Government in March 1946. On 1 January 1948 came the largest single operation the gilt-edged market had seen since the War Loan conversion of 1932—the vesting of the capital of the Railway Companies. Over £1,000 million of the new British Transport 3 per cent. Stock 1978–88 was issued to the railway shareholders. The behaviour of the market in the weeks immediately before vesting day—in particular, the stability in an otherwise falling market of the prices of the two stocks most comparable to the new issue—pointed to a certain amount of official support of the market. In the event, the terms of the new issue were to prove unattractive to the market and the

stock opened at a discount. A similar fate awaited the new British Electricity 3 per cent. Stock 1968–73, over £300 million of which was issued to the shareholders in the main electricity companies on 1 April of the same year. Observers reported rather less conditioning of the market than in the earlier case, but the dates of the new issue once again proved too long for the market. Exceptionally, the new British Gas 3 per cent. Stock 1990–5 opened above par when it was issued in May of 1949. All these three nationalization stocks had been issued on a 3 per cent. basis. By the time the steel shares came to be vested in February 1951, the prices of government securities had fallen further, and the new stock issued was a 3½ per cent. one with dates 1979–81.

This is not the place for a discussion of the rights and wrongs of using Stock Exchange valuations as a basis for compensation. Something should, however, be said about how the shareholders of vested stocks were affected by the Government's monetary policy at the time. In 1947 it was feared that the interests of the railway and electricity shareholders might suffer as a result of the Cheaper Money policy. As it turned out, the reverse was to be the case. In both cases, share valuations were based on Stock Exchange prices in November 1946 at the height of the Cheaper Money boom, while the compensation stocks were issued only after the yield on 2½ per cent. Consols had once again risen above 3 per cent. Railway and electricity shareholders therefore had the great advantage of being in possession of stocks which held their value at a time when both gilt-edged and equity prices were falling rapidly, an advantage which far outweighed the fact that they were unable to sell their compensation stocks except at a discount when they opened in the market. Gas shareholders were less fortunate in this respect, for there was little change in the market between the valuation dates in October 1947 and the date of vesting. Shareholders in those gas companies whose compensation terms were agreed later than the main vesting day were indeed extremely hardly used, for they were issued with the equivalent nominal amount of the original compensation stock notwithstanding the fact that the price of this stock had fallen very sharply. The case of the steel shareholders is less clear, for while there was a considerable fall in the gilt-edged market in the interval between the valuation date and the vesting day, this was overshadowed by a rise in equity prices.

The inability of the Government to carry out the vesting of

railway and electricity shares except on a 3 per cent. basis was more than just a mark of the failure of the Cheaper Money experiment; it also went a long way to cancel out such savings in the interest-cost of the national debt as Mr. Dalton had managed to achieve as a result of his assault on long-term rates of interest. This saving had not, in any case, been great. Total subscriptions to new and conversion issues during the course of the Cheaper Money drive amounted to about £1,700 million. Moreover, in the case of the conversion into 1¾ per cent. Exchequer Bonds, the saving in interest-cost was only short-lived, for the Bonds had to be repaid or converted into a 2½ per cent. stock in 1950. As against this figure of £1,700 million, the total sum issued to railway and electricity shareholders amounted to about £1,400 million. Even if allowance is made for the fact that the shares of railway and electricity companies may not have participated to the full in the general rise in share prices resulting from Cheaper Money, it is nevertheless true that the eventual interest charge on these nationalization issues was considerably greater than it would have been if the long-term rate of interest had been kept stable at about 3 per cent. throughout the period. All in all, therefore, the saving in interest on the long-term debt can be said to have been almost negligible in relation to the total interest-burden of the long-term debt as a whole. This leaves out of account the fact that the Treasury undertook considerably less long-term borrowing than would have been the case if an orthodox policy of 'funding the debt' had been pursued. Nor can the saving to those local authorities who took advantage of lower interest rates to float new loans be ignored. Nevertheless, by far the greatest saving in interest came about as a result of the reduction in interest paid on the large floating debt; and this part of the programme was carried out without any alarming increase in bank deposits, and lower short-term rates were maintained by successive Labour Chancellors even though the long-term rates rose to well above their war-time level.

So short-lived a period of lower long-term rates is unlikely also to have had much effect in bringing about a more egalitarian distribution of income. Indeed, there may well have been a redistribution from the smaller to the larger *rentier*. As Professor Paish has pointed out,[1] if Mr. Dalton was the *rentier's* enemy, he was

[1] 'Cheap Money Policy', *Economica*, Aug. 1947. Reprinted in *The Post-War Financial Problem*, Macmillan, 1950.

much more the speculator's friend; and, since it might be expected that the surtax payer was more anxious to avoid capital losses and therefore more likely to have gone liquid at the time of the collapse in the market, he may well have gained at the expense of the smaller investor.

It will be seen from the above that the failure of Mr. Dalton's experiment was a failure confined to that part of the programme which was concerned with the forcing down of long-term interest rates. The reduction in short-term rates, which was so smoothly carried out in 1945, continued to give benefit to the Exchequer in the servicing of the floating debt right up to the fall of the Labour Government in October 1951. Moreover, the Cheaper Money policy of 1945 and 1946 gave place at first to a 'neutral' monetary policy rather than to a positive policy designed to play its part, along with fiscal and other measures, in controlling the total expenditure of the nation on goods and services. Recently, with the return to office of a Conservative Government in October 1951, some steps have been taken in the latter direction. Part of the floating debt has been funded, Bank Rate has been raised to $2\frac{1}{2}$ per cent.[1] and has once more been made 'effective'. The main objective of this new policy would seem to be the reduction of bank advances, which have become an inflationary factor of greater importance now that the public is no longer so liquid as in the immediate post-war years. For this reason the resumption by the Bank of England of control over the quantity of money—the closing of the 'back door'—is thought to be more important than the forcing up of interest rates themselves, although the introduction of the new policy has resulted in a rise in both short and long rates.

This tentative return to a traditional monetary policy has not passed without controversy; and the proper role of monetary policy in existing conditions and with a national debt of the present proportions remains very much a matter of dispute.[2] Certainly the history of Mr. Dalton's unfortunate experiment has not provided the answer to this wider question. All that it has done is to mark out the limits within which the inflationary consequences of monetary expansionism can safely be ignored by the Chancellor. Even this limited gain in knowledge has not been achieved without cost. Whether or not Lord Keynes had any responsibility for recom-

[1] The rate at which Treasury Bills can be rediscounted remains at 2 per cent.

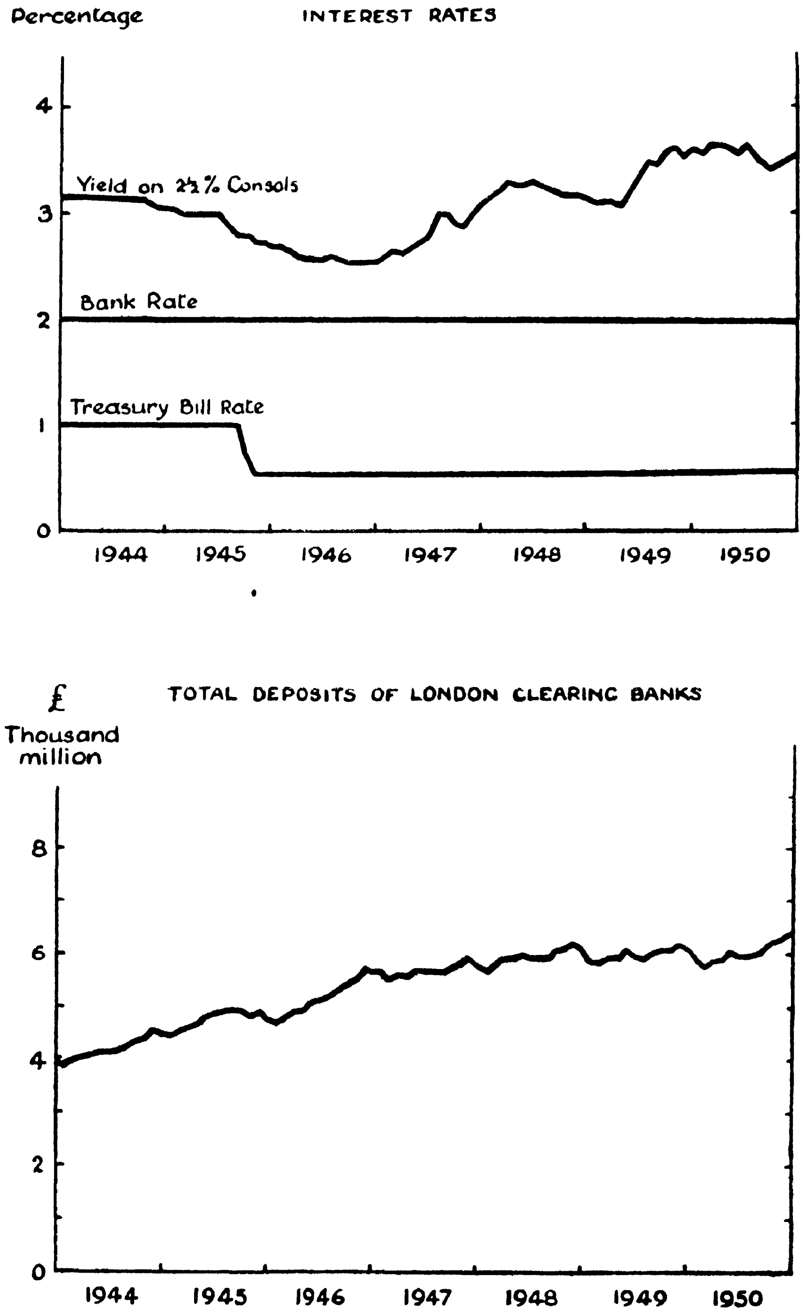
[2] Cf. 'Symposium on Monetary Policy', *Bull. Inst. Stat.*, Apr.–May 1952.

mending the Cheaper Money experiment at its inception in 1945,[1] its Keynesian inspiration is unmistakable. Yet the experiment and its failure have done a disservice to Keynesian ideals. The memory of the shock sustained by the gilt-edged market as a result of the withdrawal of Government support in 1947 will not be easy to erase when and if lower long-term rates are once again called for by economic conditions. In the words of Mrs. Robinson's comment on the events of that year:[2]

> If the authorities' nerves are shaken by the ferocious growls with which the bears have been deafening them all this time, and once allow bond prices to relapse, the growling of the bears turns to joyous yelps of 'I told you so' and the expected future bond rate is so much the higher for ever after.

[1] In this connexion, see Mr. Dalton's letter to *The Economist*, 3 Feb. 1951.

[2] Joan Robinson, 'The Rate of Interest', *Econometrica*, Apr. 1951.



INTEREST RATES AND BANK DEPOSITS, 1944–50

CHAPTER X

BANKING DEVELOPMENTS

By C. N. WARD-PERKINS

IN retrospect there appears to be no very spectacular development to record either in the field of banking organization or of banking practice that has occurred during the past six years.[1] Seldom has the financial machine, and the banking part of it in particular, operated with so little general criticism as during Britain's first majority Labour Government, a state of affairs that surely would have surprised socialist and banker alike fifty or even twenty years ago. How is it that the financial machine has ridden the storms of the post-war world with so little apparent strain either on institutions or on temper? Certainly it was not by carefully devised planning or anticipation of events. Rather the financial institutions have shown great flexibility in adjusting themselves to new circumstances. There has not been in fact any violent reversal of previous trends; since then strains have never been allowed to develop because monetary policy has been largely passive; that is, the volume of money has been allowed to follow whatever other policy was in operation. The authorities have always been prepared to supply the bankers with the cash they wanted, both during and since the Cheaper Money drive. This is 'the subordinate and even casual role to which monetary policy has been reduced in the general scheme'.[2] Furthermore, banking now approximates increasingly to a public service. Its institutions are capable of being fitted into the framework of a mixed economy with very little difficulty and are accepted in British fashion as part of the inevitable order of things. The war-time economy had already harnessed the banking system securely to the Treasury chariot, and the nationalization of the Bank of England and the statutory powers that were given under it to direct the commercial bankers only formalized an existing state of affairs.

[1] Since this chapter has been written the reversal of twenty years of monetary policy has taken place. The use of the present tense is thus often no longer applicable to the world of Butlerian finance. Nothing that has happened, however, has caused the author to change his views, as stated, on the situation before Nov. 1951.

[2] *The Economist*, 5 May 1951.

Banking structure

The institutional framework remains much as it was in 1939, or indeed as it emerged in 1924 after the great amalgamations of the commercial banks. A pre-war observer would find the old familiar names around Lombard St., and much the same practices. Two newcomers, the Finance Corporation for Industry and the Industrial and Commerical Finance Corporation, would not puzzle him for long if he remembered the celebrated 'Macmillan Gap'. He would, however, find the constitution and organization of the Discount Market strikingly altered, and he would find a new government short-term security, the Treasury Deposit Receipt, that was not at all popular with the banking community. If he had been a pre-1931 observer, he would find the absence of interest in Bank Rate rather puzzling as well as the complete lack of interest in the 'proportion' and the weekly statements of the Bank of England.

Table 1 sets forth the names of the principal London banks as at 31 December 1950.[1] After each bank is given: (*a*) the number of its branches; (*b*) an index of the total assets and liabilities expressing Midland Bank as 100: and (*c*) an index showing expansion of assets since 1938 (= 100) for each bank. The relative positions of the major banks have altered little since 1938. It will be seen that the Big Five are still outstandingly the largest banks. But Martins and the District Bank are by any world standard large banks; they are essentially regional in structure, being concentrated in the north of England, especially in Lancashire. Two of the Clearing banks, Williams Deacon and Glyn Mills, are associated with the Royal Bank of Scotland, until recently the largest Scottish bank, which in fact owns their capital, but they continue to function as independent banks. In addition there are English banks which are not members of the Clearing House and which do not cater for ordinary customers; this class includes such famous names as Barings and Hambros. There are seven Scottish banks; the Clydesdale and North of Scotland banks were amalgamated on 1 January 1950; both were affiliated to the Midland which owned their capital. They now constitute the largest Scottish bank.[2] In the post-war period there have been no fresh affiliations with English banks nor have the Irish banks formed any further ties.

There has been one other recorded change in English banking.

[1] *The Economist Records and Statistics, Banking Supplement*, gives full details for each bank.

[2] See *Midland Bank Review*, Feb. 1950.

The National Provincial have sold their interest in Grindlays to the National Bank of India but close ties are still maintained.

Which British bank is the largest is a matter of definition. Individually Midland is certainly larger than Barclays but the Barclays group which contains the vigorous Barclays (Dominions, Colonial, and Overseas) Bank is considerably larger than the Midland group. But the old urge 'to be bigger than X' is no longer the powerful force it was when Lloyds and Midland were snapping up smaller banks like players in a game of beggar-my-neighbour.

TABLE I

Banking Structure, 31 December 1950

*London Clearing Banks**	*Branches*	*Index of total assets*	*Index of expansion of assets of each bank 1938 = 100*
Midland	2,118	100	298
Barclays	2,053	91	292
Lloyds	1,706	85	274
National Provincial	1,261	59	267
Westminster	1,061	59	229
Martins	575	23	293
District	541	17	262
Williams Deacon†	209	9·5	335
Coutts	6	3·5	220
Glyn Mills†	2	6	219
TOTAL	9,533		

* Excluding the National (an Irish Bank).
† Capital owned by the Royal Bank of Scotland.

Eleven other English Banks listed including Barings, Erlangers, Grindlays, Hambros, Yorkshire Penny Bank.
Seven Scottish Banks with 1,761 branches and £909 million total assets.
Nine Irish Banks with over 1,000 branches.

Affiliations

Scottish: British Linen with Barclays. Clydesdale and North of Scotland with Midland. National Bank of Scotland with Lloyds.
Irish: Belfast Banking Company with Midland. Ulster Bank with Westminster.

The structure and composition of banking assets and liabilities

The changes in assets and liabilities are set out for the period 1945–50 in Tables 2 and 3. The significance of these changes will

TABLE 2

LONDON CLEARING BANKS

Assets and Liabilities 1938–50, in £ million, showing Percentage of Total Deposits of each Type of Asset and Increase in each Type of Holding over 1938

	(1938 = 100) Monthly Average 1938			31 December 1944			31 December 1945			31 December 1946			31 December 1947			31 December 1948			31 December 1949			31 December 1950		
Liabilities:																								
Total Deposits: Gross	2,277		100	4,545		200	4,850		214	5,685		248	5,934		261	6,200		272	6,202		272	6,368		281
Net*	2,217		100	4,369		195	4,660		210	5,439		245	5,682		256	5,914		267	5,964		270	6,100		277
on Current Account	1,247		100	3,045		241	3,262		258	3,823		310	3,962		319	4,159		328	4,161		329	4,262		340
on Deposit Account	1,033		100	1,500		145	1,588		153	1,862		180	1,972		191	2,041		197	2,041		197	2,106		205
		Percentage of assets			Percentage of assets			Percentage of assets			Percentage of assets			Percentage of assets			Percentage of assets			Percentage of assets			Percentage of assets	
Assets:																								
Cash	241	10·6	100	530	10·8	221	526	10·5	224	499	8·8	207	502	8·5	208	501	8·1	208	532	8·5	221	540	8·5	224
Money market assets	431	18·9	100	346	7·5	80	621	12·8	144	1,042	18·3	240	1,273	21·4	295	1,226	19·8	287	1,680	27·0	385	2,000	31·5	463
Call money	151		100	199			252			432			480			485		321	571		375	592		390
Bills	280		100	147			369			610			793			741		265	1,109		397	1,408		502
Treasury Deposits Receipts				1,667	37·0		1,523	31 5		1,560	27·4		1,288	21·7		1,397	22·5		793	13·0		456	7·5	
Investments	637	28·0	100	1,165	25·5	184	1,234	25·5	195	1,427	25·1	225	1,483	25·0	233	1,478	23·8	232	1,512	24·5	238	1,528	24·0	240
Advances	976	42·9	100	754	16·5	78	815	17·0	84	980	17·2	101	1,206	20·3	124	1,378	22·2	141	1,523	24·5	156	1,644	26·0	170
Investments + Advances	1,613	70·9	100	1,919	42·0	127	2,049	42·5	136	2,407	42·3	160	2,689	45·3	167	2,856	46 0	189	3,035	49·0	203	3,172	50·0	210

* Net Deposits exclude from gross deposits balances with other banks. Source: *Monthly Digest of Statistics.*

be discussed later but the following general points should be noted:

1. The only new asset is the Treasury Deposit Receipt, a war-time innovation whereby the Treasury could borrow directly from

TABLE 3

Analysis of Bank Advances 1947, 1949, and 1951
(£ million)

	Feb. 1947	*Per-cent-age*	*Feb. 1949*	*Per-cent-age*	*Feb. 1951*	*Per-cent-age*
Mining	11·5	1·05	11·0	0·75	10·0	5·5
Metals and engineering	90·0	8·8	147·0	1·0	127·0	7·0
Transport and shipping	23·5	2·5	34·5	2·35	34·5	1·9
Cotton and textiles	17·0	2·6	54·0	3·7	94·0	5·2
Chemicals and leather	18·5	1·7	29·5	2·0	37·0	2·5
Agriculture	80·1	7·8	126·5	8·7	178·5	9·6
Food, drink, and tobacco	64·5	6·25	89·0	6·1	127·5	7·0
Retail	88·0	8·6	153·0	10·5	191·0	10·6
Entertainment	24·5	2·4	34·5	2·35	29·5	1·6
Building	60·0	5·8	74·0	5·1	82·0	4·5
Unclassified	43·2	4·2	75·5	5·2	106·5	5·8
Local government	79·0	7·7	94·5	6·5	90·5	5·0
Public utilities	13·5	1·3	21·5	1·5	56·0	2·9
Financial	94·0	9·1	121·0	8·5	200·0	11·1
Personal and professional	195·0	28·6	396·0	26·5	430·5	23·5
Churches	14·0	1·35	9·0	0·6	11·5	0·6
TOTAL	1,027	100	1,461	100	1,806	100

Source: *Monthly Digest of Statistics.*

the commercial banks, thus short-circuiting the money market. The loans were made on a six-months basis and originally carried interest of $1\frac{1}{8}$ per cent. They were not negotiable on the money market but could be cashed with the Bank of England at Bank Rate and thus only at a loss. It is not surprising that they were not popular with bankers, as the amount borrowed was arbitrary, nor were they liquid or high yield bearing. Naturally the market disliked the consequent reduction in the value of turnover of bills. Moreover, technically the T.D.R.s were cumbersome, since the

banks could not easily adjust their holdings; the Treasury demands for short-term accommodation varied very considerably over the year, being lower in the first quarter as the revenue flowed in, and thus the banks found themselves alternatively swamped with and denuded of cash and denied the use of the money market as a cushion. In October 1945, as a prelude to the Cheaper Money drive, the interest charge on T.D.R.s was reduced to $\frac{7}{8}$ per cent. but their volume was gradually reduced. In 1948, however, there was a revival. As the volume of tender Treasury Bills was being held constant at about £2,100 million, the volume of T.D.R.s became the variable factor in government short-term borrowing. A little more flexibility was, however, obtained by introducing receipts of five and seven month's maturity. Thus the repayment of any large increase in demand could be spread over a three-month period. Since 1949, however, the volume of T.D.R.s has fallen rapidly.[1]

2. As compared with pre-war days, especially the 1920's, the banks are now far more heavily committed to the finance of the Government. The banks' private lending is represented by advances and that small part of the money market which supports commercial bills.[2] Even in 1950 the extent to which the commercial banks were engaged in supporting public credit was certainly twice as great as their private business.

3. The cash ratio has apparently fallen from 10·5 per cent. to just over 8 per cent. As will be explained later, this is a nominal and not a real change.

4. The banking system is now much more liquid than it was in 1929—as indicated by the extent of its money market assets and T.D.R.s. Advances and investments, the high earning assets, have gradually recovered, but have not yet reached their pre-war percentage.

Developments since 1945

Financial history is conveniently marked off by the reigns of Chancellors of the Exchequer; certainly since the war we have had a Daltonian phase and a Crippsian phase.

It was Mr. Dalton's Cheaper Money drive that falsified so many

[1] See Sayers, *Modern Banking*, 3rd ed., p. 136, and *The Economist*, 10 Sept. 1949, for a fuller discussion of this topic.

[2] Estimated at about £100 million in 1948. W. T. C. King on the London Discount Market in *Current Financial Problems and the City of London*, Institute of Bankers, 1950.

of the prophecies that had been made regarding the post-war future for British banking. An era of considerable difficulty had been anticipated as a downward adjustment of deposits took place. This was considered inevitable on the grounds that the reduction of the Government's indebtedness to the banking system was unlikely to be compensated by an equal expansion of private lending owing to the extraordinarily liquid position of the public. In retrospect, the bankers' anxiety appears surprising; however, they were all

TABLE 4

Credit Expansion Since the War (London Clearing Banks—£ million)

Changes in:	*1945*	*1946*	*1947*	*1948*	*1949*	*1950*
Gross deposits	+305	+836	+249	+265	+2	+166
Net deposits	+291	+779	+243	+231	+51	+136
Advances	+61	+166	+225	+172	+145	+121
Investments	+69	+193	+56	−5	+34	+16
Advances and investments	+130	+359	+281	+167	+179	+137
Cash	+36	−37	+2	...	+30	+8
Call money	+54	+180	+48	+6	+86	+21
Bills	+223	+241	+183	−52	+368	+299
T.D.R.s	−144	+36	−272	+109	−604	−337
Liquid assets	+169	+420	−39	+63	−120	−9

Source: *Monthly Digest of Statistics.*

much exercised by the possibility that they might not be able to employ their resources profitably, even if these were reduced from their swollen war-time volumes. For example, the Midland Bank devised a special scheme to assist small industry and thus to extend their operation. Further, operating costs were certain to rise. Nevertheless, bankers would have welcomed a reduction in the volume of government indebtedness, especially of T.D.R.s.

The assault on interest rates changed the whole situation, for the techniques adopted ensured a big expansion of bank deposits, and thus additional earning assets for the banking system. It is true that the opening of the campaign was the reduction of the rate on Treasury Bills to ½ per cent. and on T.D.R.s to ⅞ per cent. (which meant a loss to the banking system of £11 million per annum); indeed, Mr. Dalton used the short-term rates and those on medium short bonds as levers to force down the rates on the longs.

Why did the government indebtedness to the banking system

increase at a time when the budget deficit was falling? Partly it was because the war-time stream of small savings was drying up and the Treasury had to look to the banking system for its residual requirements, but fundamentally the cause was that 'the departments'—the Treasury's 'creatures'—were taking up the slack on those issues which the public would not take. The departments moved out of shorts, into longs, the public took up cash in the form of bank deposits and the banking system the shorts. The banking system, also on its own account, increased its holding of gilt-edged, thus supporting its market, a move that *The Economist* had foreseen early in 1946 as not unlikely. At the apex the Bank of England provided the additional cash to support the greater volume of bank deposits.

The discount houses, in their war-time acquired role as bond dealers, were the fulcrum on which the lever of interest rate reduction was to operate. They were permitted to increase their capital by about 50 per cent. and six new public companies were formed out of private firms.[1] With three old-established companies a bond portfolio of nearly £300 millions could then be held. It was made clear that as long as they were prepared to act as genuine jobbers —that is, to buy to capacity on falling markets—the authorities would support their liquidity.[2] The discount houses needed little persuading, since they were hardly covering operating costs on their bill dealings and could indeed never have survived the 1930's on this diet alone. It is ironical that a practice that had started surreptitiously and had been frowned on by both the banks and the authorities, should now become the chief *raison d'être* of the discount houses. Bond dealing was highly profitable, for a security yielding 2½ per cent. was taken up with money borrowed at less than 1 per cent., but it carried considerable risks since bond holdings were highly geared to capital (over eight to one) and a decline in their market value of 5 per cent. could be serious.[3] In the event the discount houses were discreet enough to keep their holdings largely in bonds of a short life.[4]

[1] To be precise five were formed out of existing private firms and partnerships while one was a new organization.

[2] See W. T. C. King, op. cit., and *The Economist*: 'New Lombard Street', 15 Feb. 1947, and 'Bill Market Documentary', 24 July 1948.

[3] Short-dated security values fell 3 per cent. in July and Aug. 1947. The high gearing ratio ensures that declines in the capital value of bonds cut heavily into profits.

[4] See *The Economist* notes, 30 Aug. 1947.

It is sometimes argued that the continued existence of specialist discount houses is an anachronism, only maintained through the kindness of the big operators in the market—the authorities and the commercial banks. There was an element of truth in this assertion for a period in the 1930's, but the discount market is now more firmly established. The justification for it on grounds of public interest is twofold: first, it continues to fulfil its historical role as a specialized money market, thus providing a buffer between the authorities, on the one hand, and the commercial banks on the other, and also between the individual banks themselves; second, it has now undertaken the duty of maintaining a market for government medium- and short-term bonds. These functions have to be undertaken by someone, and in the absence of the discount houses they would presumably fall to the commercial banks; moreover, it can be argued that specialist institutions are likely to fulfil these duties more smoothly and efficiently. American experience does not suggest that the more direct relationship between the authorities and banking system is more satisfactory. There is no doubt that the discount market is one of the features that make London, despite all the weaknesses of the past thirty years, an attractive international banking centre.

In principle the easy money conditions that were essential for the operation of the Cheaper Money campaign represented a continuation of war-time and even pre-war practice. The volume of cash no longer determined the volume of bank deposits as under conditions of classical banking. In fact the roles were reversed, for the volume of bank deposits, which was determined by a large number of other factors, dictated the amount of cash that the authorities made available to the banking system. This was provided by the 'ever open back door' policy, whereby the discount firms could get, at will, cash for bills or bills for cash at market rates through the government broker; indeed, if the discount market was short of bills, the government broker would obligingly take these from the banks who could thus provide the market with more loans.

Thus open market operations had apparently joined bank rate manipulations as techniques of a bygone age. Only once since 1932 had Bank Rate moved from 2 per cent. and then more as a conditioned reflex at the start of the war in September 1939 than for any valid reason.

Thus the banking system was a useful instrument in the hands of a determined Chancellor, though not quite so amenable as the departments, or that shadowy body the National Debt Commissioners, for it could publicly express disapproval of his policies, if not actively place obstacles in his way. The failure of the cheaper money policy cannot be attributed to the bankers, who increased their holding of gilt-edged.[1] The second Goschen was defeated by the stubborn refusal of the public to believe that $2\frac{1}{2}$ per cent. or less had come to stay, and the realization that his policy was in fact monetizing the National Debt.

During the excitement of the early phases of the cheaper money campaign, the nationalization of the Bank of England aroused little comment. There were indeed few surprises in the Bill that was presented to Parliament; the Chancellor was obviously at pains, as he made clear later in the debate, to preserve the existing relationships and the essential mechanism as it was then functioning. The most obvious change was the taking over by the Treasury of all the existing stock. The stockholders were generously compensated, being guaranteed the same income that they had drawn for the past twenty-two years. In future the governor, deputy-governor, and the directors (reduced in number from 24 to 16) were to be appointed by the Crown; but the fact that Lord Catto, the reigning governor, continued in office under the new régime suggested that their status was not being reduced to that of an advisory panel. It was significant that the Bank was allowed to maintain its inner reserves, and that future payments to the Treasury were to be no more than those existing before nationalization with the sums necessary to cover the payments to ex-stockholders. All this argued that the Government was anxious to preserve as much of the Bank's independence, and thus the value of its judgement, as was compatible with the general control over monetary matters that the Treasury must in future exercise.

Yet there was a possible sting as far as the general banking structure was concerned, in Clause IV. Under this the Bank may, 'if they think it necessary in the public interest, request information from and make recommendation to bankers, and may, if so authorised by the Treasury, issue directions to any banker for the purpose of securing that effect is given to any such request or recommendation'. In the past the moral power of the Bank, as opposed to its

[1] Investment holding rose £249 million in 1946 and 1947.

pressure exercised through the money market, had been used very sparingly. Much would depend on how these statutory powers would be exercised; for example, could the Treasury acting through the Bank order the commercial banks to take up gilt-edged securities?[1] In fact Clause IV is hedged round with safeguards and no instance of its use has been publicized.[2]

In July 1946 the Borrowing (Control and Guarantees) Act, the second of Mr. Dalton's streamlined pieces of Socialist legislation, was passed; under this, borrowing from the banks in the ordinary course of a customer's business was excluded, yet the Chancellor issues from time to time for the guidance of the banks memoranda, as had been the practice during the war, which follow the same general lines as those under which the Capital Issues Committee operates. In particular the banks had been requested in May 1945 not to give facilities for the speculative buying of securities or commodities or immoderate personal expenditure. In December 1947 dealings in real property were added to the list of undesirable activities and again in October 1949, after devaluation, the banks were urged to take 'every possible step to restrain inflationary tendencies'. On the whole the authorities appear satisfied with these informal arrangements.[3]

In December 1946 'the venerable but unworthy practice' of window-dressing was abandoned.[4] Ever since the Baring Crisis in 1890, the banks, with one or two exceptions, boosted their cash holdings on the days when they published their weekly accounts by calling in loans from the market, by arranging their bill holdings to mature on that day, and by refraining from taking up fresh bills or investments. This was a concerted policy: the banks by agreement drew up their balance sheets on different days of the week, and a stage army of cash solemnly marched up and down Lombard Street every week. However, in June and December, at the half-yearly accounts, all banks drew up their accounts at the same time, and as the army was called on parade simultaneously in several places, the market used to find itself seriously inconvenienced and was obliged to have recourse to the Bank of England at penal rates. This solemn farce had deceived no one and its abolition had been

[1] *The Economist*, 'Banking under Control', 16 Feb. 1946.

[2] It is an interesting point that there apparently exist no legal sanctions whereby the Bank could give effect to any such requests or recommendations. None are laid down in the Act.

[3] *Midland Bank Review*, Aug. 1950.

[4] *The Economist*, 'The End of Window-Dressing', 14 Dec. 1946.

urged by the MacMillan Committee in 1931. It had a strange revival during the war when as much as a third of the cash holdings shown by the Joint Stock banks in their balance sheets were manufactured by the authorities for the purpose. The discount houses, indeed, were no longer penalized, being now allowed to borrow at market rates. As has been made clear earlier, the authorities were perpetually window-dressing the cash reserves. It is hard to explain the survival of this practice except as evidence of the intense institutional conservatism of British bankers and the belief that 10 per cent. was the established cash ratio that should, for the sake of respectability, be maintained in public.

The limit of success of the Cheaper Money campaign was reached early in January 1947. 2½ per cent. Consols were quoted above 99 and the *Financial Times* Equity Shares Index stood at 144. Henceforward it was the authorities who were on the defensive, and one of the greatest and longest bull markets the Stock Exchange had ever experienced came to an end. No British Government issues were made in this period, but a number of corporation issues on a 2½ per cent. basis were very poorly supported. The National Debt Commissioners acting in the capacity as public stags were forced to take often as much as 90 per cent. of some offers. The coal and convertibility crises in the early spring and summer of 1947 sapped public confidence as regards the future of both equities and gilt-edged. There was a modest recovery in the autumn, but with the coming of the new Chancellor in November the downward slide was resumed, for Sir Stafford Cripps was not personally committed to the Cheaper Money campaign; moreover, he was expected to take a tighter line with inflation, including a stricter control over the volume of money. In January 1948 the new Transport stock was issued on a 3 per cent. basis.

The expansion of bank deposits in 1947 appears modest in the light of the increased support that the authorities were obliged to give to the market and the movement of the public out of securities into cash; the explanation is that because of the much heavier adverse balance of payments in 1947 the authorities were provided with sterling resources to a much larger extent than had been the case in 1946—or was to be the case in 1948. Thus the Treasury was not obliged to have recourse to the banking system, the lender in the last resort. The published figures give no real indication of the extent that the public debt was monetized.

There was also a modest increase in advances in 1947, and it was now becoming plain that the highly liquid resources that industry had had at its disposal in 1945 were being exhausted as the war-time depletion of stocks and real capital were being made good. The continuation of this situation partially explains why in 1948, despite the Crippsian policy of disinflation, the banking system's liabilities and assets continued to rise. This increase gave rise to some criticism that the banks were not pulling their weight in the drive against rising prices; the truth is that the movement of bank deposits taken in isolation is not a good index of inflationary pressure. Even less is it the case that every increase in bank deposits must inevitably add to this pressure. In fact from other evidence it is certain that in 1948 the inflationary pressure was relieved.[1] The rise in bank deposits occurred firstly because the authorities could not reduce their own indebtedness to the banking system and, secondly, because the increase in advances in industry was maintained. The authorities were obliged to apply to the banking system because of the very great improvement in Britain's balance of payments and also because of two extraordinary operations, the repayment in cash of £150 million to the holders of Argentine Railway Stock and of £300 million to the holders of the 3 per cent. Conversion Stock 1943–53. These latter moneys might be expected to be eventually reinvested in other securities (they in part explain the steady rise during the year in gilt-edged and equities, which on the face of it was rather remarkable) but undoubtedly some of the increase in bank deposits in January 1949 was held pending reinvestment.[2] As for the expansion in advances it was to be expected and represented by no means an unhealthy trend. The general policy with regard to advances was already under supervision, and it was never stated officially that the banks were acting contrary to the spirit of the Chancellor's directives.

In a sense the history of 1948 was repeated in 1949 and 1950 as far as the banking system was concerned. Upward inflationary pressures were still operating, held at bay with varying degrees of

[1] Especially in the early summer of 1948 when in certain trades loud protests were to be heard and in fact certain relaxations regarding purchase tax and clothing coupons were allowed.

[2] How much of any increase in bank deposits represents intended or genuine savings it is statistically impossible to estimate. It can be argued that the increase in the national income since 1945 has led to the need for a greater volume of money needed for transactions purposes.

success by a policy of direct controls and budgetary disinflation. The year of devaluation, 1949, saw the rise of total deposits halted for the first time since 1939, but in 1950 with the advent of the Korean War this upward movement was resumed.

As has been made clear previously, the halting of the rise of total deposits in 1949 does not necessarily indicate that in that year disinflation had been more effective than in 1948; certainly by the end of 1949 the situation was more threatening than had been the case twelve months previously. Even if the Korean War had not intervened the full effects of devaluation would not have made themselves apparent until 1950. During this period the banking system has from time to time come under criticism for the rise in advances, but if these are considered in real terms, that is, deflated by the rise in prices, there seems little ground for this criticism. The question is, what price index is appropriate; considering the nature of bank loans, a combination of a wholesale and retail index,[1] the former carrying double the weight of the latter, might be most suitable, and is shown in Table 5.

TABLE 5

Bank Advances Deflated by Composite Price Index

	1945	*1946*	*1947*	*1948*	*1949*	*1950*
Bank advances (£m.)	815	980	1,200	1,378	1,523	1,644
Price index	100	105	117	127	135	158
Real volume of advances expressed (1945 = 100)	100	121	126	135	138	138

The increases in the volume of advances are modest especially when it is remembered that in 1945 advances were considered low and that since that date a great increase in the volume of business activity has taken place. They have remained relatively stable since 1948 and it might be argued that the short-term bank loan is being displaced as a method of short term finance.

It might have been thought that the heavy fall in security values in 1949 would have made its mark on banking profits, but unfortunately (for the analyst at all events) it is difficult to assess the true impact of these losses on the banks. The latter are expressly excluded from those provisions of the new Companies' Act which

[1] Wholesale index: Board of Trade; Retail index: derived from National Income White Papers and *Annual Abstract of Statistics*.

require the true disclosure of trading profits and thus it is difficult to know to what extent in one year hidden reserves are swollen or diminished.[1] The banks' annual statements have disclosed profits of £9 million for the 'Big Seven' with modest increases each year, and dividends paid out were frozen long before the Government's appeal for voluntary dividend restraint. None of the 'Big Five' has altered its rate of dividend since 1938.

During these years the bankers have in fact loyally supported public policy in consistently advocating more and not less disinflation; in particular they have advocated a return to the use of monetary weapons. This cannot be entirely for self-interested reasons, since theirs would be one of the first institutions to bear the brunt of a tighter monetary policy. First, there would probably be a return to a disciplined money market, which would certainly force the banks to be more careful in their lending; second, there would be an end to the upward rise in deposits, which rise has solved temporarily the banks' operating cost problem; and third, a rise in gilt-edged rates would further depreciate the value of their investment portfolio. True the higher short rates would enhance the earning power of their money market assets while the rate charged on advances could be raised (in fact by agreement the banks raised their rates on certain advances by ½ per cent. in July 1951).

If there should be a return to such a policy to reinforce that of budgetary disinflation, then the old money market mechanism, so familiar to students, will again have the breath of life instilled into it.

One problem that the last five years has not raised for the banking system is the crucial one of its true relation to industry, especially with regard to the latter's need for medium- and long-term finance. Indeed, at present the only criticism is the ill-judged one that banks are being too lax in their lending, the exact opposite of the criticism that culminated in the setting up of the Macmillan Committee in 1929. Indeed, it is clear that at the present time finance is not the limiting factor in the process of capital formation. Yet there are disturbing symptoms in the capital market that may cause difficulties in the future. However, the banks are playing a

[1] Investments are apparently valued for balance sheet purposes either at cost price or market valuation, whichever is the lowest. Capital losses are thus written off annually, while capital gains are not carried to profits. This conservative policy ensures that fluctuations in capital values do not distort the profitability of banking business.

modest (and it is rumoured somewhat reluctant) part in the provision of long-term capital since they have furnished the capital for the Industrial and Commercial Finance Corporation which together with the Finance Corporation for Industry was set up by the Coalition Government in 1945. These two institutions belatedly closed the Macmillan gap. I.C.F.C. has apparently made a good if limited start in its task of supplying small- and medium-sized enterprises with capital at a more moderate cost than they could secure through the normal channels, but the post-war years have not been a real testing time either for the real worth of such an institution or for the success of its operation. The question still remains whether there will be an adequate supply of capital available to new and vigorous firms who can now no longer expect to raise their initial supply through personal contacts and other private channels. This raises far larger questions outside those of the existing banking structure. It is probable that bankers are still extremely conservative in this matter. The so-called principles of British banking, which above all demand a high liquidity for banking assets, are based on sound historical experience. As the events of the great depression showed, the British banking system, hidebound though it might be, was at least sound. Perhaps, however, the pendulum has swung too far in the opposite direction and there will have to be a revision of banking attitudes.

CHAPTER XI
MANPOWER
By T. WILSON

The disappearance of unemployment

OVER the five years with which this book is concerned the level of employment was maintained at a remarkably high point by previous peace-time standards. Although the number out of work rose by about a quarter of a million above the war-time figure of 100,000, it did not exceed the margin which must be expected in any dynamic economy where the direction of labour has been largely abandoned. Most of the unemployment was of very short duration and represented no more than the interval of a week or two between leaving one job and finding another;[1] and there was little trace of the prolonged unemployment which was one of the worst features of the pre-war economy. Admittedly the period between the wars was a particularly bad one, and there were periods before 1914 which made a better showing; the fact remains that the record of the years 1945–50 can rarely have been surpassed in the history of the modern British economy.

The magnificence of the achievement is generally appreciated; its nature is only less generally misunderstood. There is often a time-lag before ideas catch up with events, and in the study of unemployment it is still customary to lay far too exclusive stress upon deflation. This obsession with a possible inadequacy of monetary expenditure leads at times to the neglect of other perils, some of which were in fact more imminent over these years. It is necessary to emphasize this point because so much of what is said in the standard textbooks on employment policy has little bearing on the problems of post-war Britain. Inflation rather than deflation has been the principal cause of concern, and the level of employment has been threatened by too much monetary expenditure rather than by too little.

We must not suppose that there has been no danger of unem-

[1] The turnover of labour is high: for example, in manufacturing industry the equivalent of about a third of the numbers employed change their jobs every year, and it is not surprising that a little transitional unemployment results.

ployment in recent years or that no special efforts have been required to meet it; on the contrary the threat has been present all the time, but it has taken the form of *a possible shortage of raw materials* rather than *a shortage of monetary expenditure*. There has also been the lesser danger that, although the country in general was enjoying a high level of employment, some less favourably situated areas might suffer from structural unemployment. We shall deal first with this minor problem.

(*a*) The Coalition Government's White Paper of 1944 devoted a good deal of attention to the needs of 'special areas' with high levels of unemployment, and various recommendations were made which were designed both to encourage the migration of some of the unemployed to more prosperous regions and to bring work to those who remained. Since the war an attempt has been made to implement this policy, and the second part of it, the encouragement given to new industries under the Distribution of Industry Act of 1945, has raised many complex issues which are discussed elsewhere;[1] in the present chapter we are concerned solely with the effect on unemployment.

First of all, it may be observed that some of the basic industries, such as coal-mining, which had suffered from a high level of unemployment before the war, were short of labour in the forties. Secondly, it has long been recognized that the prevention of structural unemployment will be very much easier if there is a high level of prosperity throughout the rest of the country. Whereas the unemployed man in, say, South Wales before the war was discouraged from moving by the knowledge that there were some people out of work even in the most prosperous areas, anyone in that position today can feel reasonably sure of finding work if he moves. For these reasons the whole problem has been radically changed and simplified, although the acute shortage of houses has raised a new obstacle to migration.

In theory, the post-war housing programme should have been so designed as to favour the areas where labour was scarce and migrants were required; in practice, the acute needs in each area of the existing population, the fact that the building industry is so widely dispersed, and the political opposition which the preferential treatment of some parts of the country might have encountered, have made it difficult to do more than a little along these lines.

[1] Cf. Chapter XII.

There can be little doubt that inter-regional mobility in itself would not have been on a sufficient scale to prevent the emergence of some structural unemployment which, although far smaller than the unemployment in the depressed areas before the war, would have involved some small loss to the nation of potential output and, far more important, some hardship for those personally affected. Such a development has been largely prevented by taking work to the workers, a costly policy, it must be admitted, in terms of the scarce resources available for the expansion of industrial capital. The numbers employed in the new factories has not, in fact, been large as compared with the total working population (only ½ per cent. at the middle of our period) or even as compared with the total numbers employed in the Development Areas themselves (5 per cent.). Even if some allowance is made for the indirect stimulus given to other trades in the areas affected, it remains true that the policy has not been a major factor in maintaining full employment since the war; but the benefit to some localities and to some small groups of workers must be recorded.

(*b*) Let us now turn to the vastly more important problem of ensuring a sufficient flow of raw materials to keep everyone at work. Since Britain imports the bulk of her raw materials, the maintenance of a high level of employment, as well as the protection of the standard of living, depends upon her having the wherewithal to buy the needed imports. Of the many domestic conditions necessary for the achievement of solvency in the balance of payments we need only mention the control of inflation, and an industrial distribution of the population which will permit a large flow of production for export or for the replacement of imports. It may seem paradoxical to refer to the control of inflation as one aspect of a full-employment policy—so accustomed are we to regard *too little* monetary expenditure as the prime cause of unemployment; but *too much* monetary expenditure may also put people out of work if, by disrupting the balance of payments, it leaves us short of vital raw materials. Similar considerations apply to the principal raw material produced at home, coal. The country has been short of coal since the middle of the war, and the shortage has been so severe at times as to threaten more or less seriously the level of industrial activity. On the one occasion (spring, 1947) when unemployment rose for a week or two to a level comparable with that of the early thirties, the cause was lack of coal. Once

again the problem is complex, but, as in the case of the balance of payments, the industrial distribution of the population is one of the contributing factors: we need more miners.

It may be concluded, therefore, that in so far as public policy has contributed to the maintenance of full employment it has done so, in the main, indirectly. The measures adopted in the Development Areas have been of only secondary importance, and the familiar devices of a Keynesian policy to sustain monetary demand have not been needed at all.[1] What has mattered has been a variety of other measures, in particular the export drive and the attempt to control an inflation which might have frustrated it, the negotiation of the Anglo-American Loan and the receipt of Marshall Aid, the encouragement of domestic agriculture in order to save foreign exchange, the modernization of the coal-mines, the restriction of less essential imports, and so on. Direct manpower policy must be added to this list of major factors, but here, too, the effect on the maintenance of employment has been oblique and has mainly operated through the industrial distribution of the population; for the possibility of providing jobs for all has depended as never before upon the bulk of the people being in the jobs where they were needed most—above all upon there being enough people in the export trades, in agriculture, and in the coal-mines.

The distribution of manpower

In the Second World War the United Kingdom mobilized a larger proportion of its manpower than any other belligerent. The peak was reached in 1943, and although a slight decline took place thereafter, the proportion in the forces and the munitions industries was still 42 per cent. in June 1945. By the end of 1946, the war sector had been reduced by 7 million men and women to 10 per cent. of the nation's manpower; over the same period the return of women to their homes, the increase in unemployment, and the fact that large numbers of ex-servicemen were on release leave reduced the employed population by about 2 million, with the result that those employed in the civilian sector rose by roughly 5 million. Between December 1946 and December 1949 the size of the armed

[1] Admittedly one of the first measures taken after the war to maintain the level of employment was 'Keynesian'—but not in the conventional sense. I refer, of course, to the Anglo-American Loan in the negotiation of which Keynes played a leading part.

forces was halved, and about three-quarters of a million men and women made available for civilian employment, a process which was finally reversed, though on a very modest scale, at the end of

TABLE I

Distribution of Manpower in Great Britain

	Old Series				New Series			
	Thousands		Percentages		Thousands		Percentages	
	Mid-1939	End-1948	Mid-1939	End-1948	End-1948	End-1950	End-1948	End-1950
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total working population	19,750	20,327	100	100	23,185	23,225	100	100
Armed forces and ex-servicemen and women on leave	480	826	2·4	4·1	826	752	3·6	3·2
National and Local government service . .	1,465	2,230	7·4	10·9	1,470	1,385	6·3	6·0
Employed industrial population . . .	16,535	16,923	83·8	83·3	20,541	20,760	88·6	89·4
Unemployed . . .	1,270	348	6·4	1·7	348	328	1·5	1·4
Employed industrial population . . .	16,535	16,923	100	100	20,541	20,760	100	100
Coal-mining . . .	773	766	4·7	4·5	788	762	3·8	3·7
Other mining and quarrying	100	74	0·6	0·4	82	80	0·4	0·4
Public utilities, transport, and communication .	1,475	1,740	8·9	10·3	2,104	2,137	10·2	10·3
Agriculture and fishing .	950	1,126	5·7	6·7	1,271	1,174	6·2	5·6
Manufacturers:								
Chemical and allied trades . . .	266	343	1·6	2·0	433	484	2·1	2·3
Building materials .	567	585	3·4	3·5	—	—	—	—
Metals, engineering, and vehicles . . .	2,267	2,908	13·7	17·2	3,921	4,086	19·1	19·7
Textiles . . .	798	690	4·8	4·1	971	1,033	4·7	5·0
Clothing . . .	1,005	839	6·1	5·0	716	714	3·5	3·4
Food, drink, and tobacco	654	642	3·9	3·8	738	803	3·6	3·9
Other manufactures .	1,258	1,337	7·6	7·9	1,422	1,500	6·9	7·2
Building and constructing	1,310	1,357	8·0	8·0	1,480	1,409	7·2	6·8
Distributive trades . .	2,887	2,406	17·5	14·2	2,739	2,654	13·3	12·8
Professional, financial, and miscellaneous services	2,225	2,110	13·5	12·5	3,876	3,924	18·9	18·9

Sources: *Economic Surveys* and *Ministry of Labour Gazette.* The New Series must not be compared directly with the Old: not only is the New more comprehensive but the industrial classification has also been slightly altered. (The numbers employed in the manufacture of building materials do not appear separately in the new summary tables.)

our period. Throughout the years 1947–50 both the distribution of the working population and its total size continued to change, but the changes were small as compared with those which took place during and immediately after the war.

Table 1 summarizes the position for 1939, 1948, and 1950.

The first feature to note is the very substantial increase in the

numbers employed at end-1948 as compared with mid-1939;[1] of this total increase of 1,499,000 (about 8 per cent.) rather less than two-thirds was due to the decline in unemployment of 922,000 and rather more than one-third to the rise in the working population of 577,000. The bulk of the additional $1\frac{1}{2}$ million people at work were employed by the State: an extra 765,000 in central and local government service,[2] and an extra 346,000 in the forces. By contrast, the business sector (including the nationalized concerns) gained the comparatively modest figure of 346,000 (about $2\frac{1}{4}$ per cent.). Within the industrial sector there was a sharp increase over this period in the numbers employed in the metals, engineering, and vehicles group (largely the result of the war), and a sharp fall in the distributive trades. Chemicals, public utilities, agriculture, building, and 'other manufactures' all gained, while there was a relative loss in mining, textiles, clothing, and professional, financial, and miscellaneous services. The second part of the table gives the smaller changes which took place between 1948–50.

A table of this kind shows the industrial distribution of the labour force but does not distinguish between those employed on export orders, those working for the services, and those catering for the needs of the domestic civilian. The very substantial rise in the numbers producing for export must, however, be recorded: within eighteen months of the end of the war, they had increased to $3\frac{1}{2}$ times the mid-1945 level. This was largely achieved by a change in the nature and destination of the products of some industries; for example, many engineering firms used their existing labour forces to produce exports instead of munitions. Fortunately the movement of labour between industrial groups, of the type shown in the table above, did not need to be anything like proportionate to the growth in production for export.

The manpower budgets

Were these changes in the labour force in the right direction? And were they of the right magnitudes? These natural questions

[1] The 'employed' include the self-employed, e.g. farmers and shopkeepers. The 'working population' consists of the 'employed' together with those who, though normally employed for gain, are temporarily out of work.

[2] The new series for 1948 and subsequent years shows a much smaller number employed by central and local government because the classification has been changed. (For example, the employees of the Post Office have been transferred to Communications.)

are by no means easy to answer and raise at once a number of further questions about the general course of industrial change and the forces which control it. How is the 'right' direction determined? And who determines it? It need scarcely be said that a full discussion of these questions, which would involve a consideration of some of the more fundamental issues of political and economic thought, will not be attempted here; but we must record the fact that the method of approaching questions such as these changed over our period. To begin with there were 'manpower budgets' which set out the distribution of manpower held to be desirable by the Government; if we are prepared to beg the question by assuming that the State has the right and the knowledge to prepare such budgets, we can say that here we have some kind of objective test by which to decide whether the actual distributions of manpower on various dates were satisfactory. Later, however, the budgets decline in importance and finally disappear. Without an explicit criterion, we can then only infer some kind of answer indirectly by asking, for example, whether in so far as the distribution was determined by the market, there was reason to believe that general conditions were such as to allow the market to function reasonably well. Of course there are some clear cases, such as coal-mining, where a direct answer can be given readily enough.

Let us begin with the 'manpower budget', examine the conditions under which it was introduced during the war, and try to account for its subsequent abandonment. Total employment in the munition industries was not planned and its actual volume was not even known with much degree of accuracy during the first couple of years of the war, although the Government always planned the size of the armed forces. Orders were placed and the firms were left to find the labour which, apart from some skilled grades, it was not difficult to do at a time when there were still hundreds of thousands out of work. Special arrangements, which were not always satisfactory, had to be made to deal with skilled labour, and, as labour in general became more scarce, priority was accorded to certain lines of production, such as aircraft. Although a good deal was achieved by means of priorities, the system was found to be inadequate as the manpower shortage grew worse; all forms of munitions production were essential, and there were some industries in the civilian sector which could not be deprived of much more labour without indirectly weakening the war effort.

Indeed, *some* of the demands within the priority categories were less urgent than *some* of the demands outside. The Cabinet therefore adopted the method of preparing 'budgets' which allocated the whole of the labour force between different occupations and set out the increases in some industries and the decreases in others which were thought to be desirable. The methods adopted in order to implement these budgets will be mentioned later; for the moment we are concerned with the preparation of the budgets themselves.

The manpower budgets were extremely useful in the circumstances of the time; indeed, they were indispensable. Since no one is likely to disagree with this judgement, there is little need to emphasize it, and attention will rather be given to the defects of the budgets. The estimates they contained were carefully prepared and were, beyond all comparison, an improvement on the somewhat wild guesses which had been made before the introduction of this new method; they were, however, far from being precise. This lack of precision was apparent even in the estimates for the munitions industries where the Government had very much closer contacts with the firms than it had elsewhere; not only did it purchase their output but it prepared programmes for a part of that output from which, it might be thought, calculations of the labour required could easily have been made. In practice, however, the difficulties were formidable: the heterogeneous nature of both the output and the labour force made it difficult to calculate reliable estimates of productivity in the past, while productivity in the future was liable to be altered by a number of factors in a more or less unpredictable way. No doubt the estimates might have been improved a little, but the difficulty of dealing with the multi-product firm, where the same labour helped to produce many different things, would always have made precision unattainable, even apart from the inescapable uncertainty about the future. Anyhow there was neither the time nor the skilled labour necessary for the detailed refinement of estimates. Everything had to be done quickly, circumstances were always changing, and approximations were the order of the day. An alternative method was to ask the firms what labour they would require; but it was not safe to rely too much upon the answers received at a time when everyone wanted more workers and was afraid that his stated requirements would be cut. As for the civilian sector, the estimates were still more rough and ready;

the bulk of the output was sold to the private consumer and comparatively few programmes were prepared. Moreover, when the government departments had prepared their estimates, they were usually inclined to exaggerate the numbers required because, like the firms for which they were responsible, they thought it advisable to include a margin for safety in anticipation of the cuts which the Cabinet was always obliged to make. This 'departmental outlook' of the Ministers and civil servants is by no means wholly reprehensible, but it constitutes a formidable obstacle to 'scientific' planning.

It is worth noting these points because the alleged failure of the Government to control the distribution of manpower since the end of the war is usually attributed simply to inadequate manpower controls and the lack of a national wages policy; war-time experience indicates, however, that even when drastic powers can be used, another difficulty remains—uncertainty about the precise purposes which the controls should be made to serve. As we shall now see, this problem is likely to be worse in time of peace.[1]

The State now buys a substantially higher fraction of output than before the war but much less, of course, than in war-time. The remainder of the national output is sold to private people, some of them abroad, by firms which have to cover their costs; this output consists of a very diverse collection of goods for most of which no production programmes are prepared by the State and manpower requirements are difficult to estimate. In some respects, of course, the problem has been simplified: the economy, though far from static, has not had to face quite such violent changes in circumstances as occurred during and immediately after the war; there has been more time to appraise the needs of the situation and the changes which have seemed to be required have been very much smaller. As against this, it may be observed that the manpower budget is mainly useful in dealing with large movements of workers; the lack of precision in the war-time estimates has been stressed above, but the budgets were nevertheless useful, and indeed indispensable, as broad indicators of the proper distribution of manpower; it was when one was dealing, not with changes of 50 per cent. or so in the labour force of an industry, but with

[1] I have tried to discuss these problems at greater length in 'Programmes and Allocations in the Planned Economy', *Oxford Economic Papers*, Jan. 1949. (Reprinted in *Modern Capitalism and Economic Progress*, chapter 3.) Cf. also *Planning in Practice*, by E. Devons, and *Lessons of the British War Economy*, edited by D. N. Chester.

small adjustments of 10 per cent. or less, that there was a serious risk that the estimated requirements would be badly out and might even be less than the margin of error on the total figure for the industry. Now it is just these small changes which are likely to be most frequently needed in peace-time, and their accurate calculation may well defeat the best efforts of the planning authorities.[1]

If the preparation of manpower budgets became more difficult after the war, the need for them also decreased. There were two reasons for this, of which the first was the fact that whereas manpower had usually been the limiting factor of production from 1941 to 1945, it was less frequently so thereafter. Raw materials more often set the limit, and for this reason greater reliance was placed upon raw-material programmes and controls—the more readily, perhaps, because raw-material controls give rise to less opposition in peace-time than manpower controls. By directing the distribution of key materials, the State can control indirectly the demand for labour, and further pressure can be exercised through the issue of building permits. Admittedly a number of raw-material programmes are not so satisfactory from the point of view of the planning authority as a manpower budget which corresponds more closely to a 'master plan'; while from the point of view of the economic historian, it is clearly more difficult to comment upon the consequential distributions of labour.

Moreover, as the period advanced, greater reliance could be placed on the market, and to this extent there was less need for manpower budgets. For some time after the war, of course, there was a strong inflationary pressure, and in such circumstances there was little presumption that market forces would lead to a satisfactory distribution of the labour force. But from 1948 onwards, the inflationary gap was gradually reduced until, by the end of our period, the sellers' market, though not eliminated, had been very substantially weakened.[2] This was a major indirect contribution

[1] In discussing the accuracy of estimates of small percentage changes in an industry, it is necessary to distinguish between two cases: (1) a change of, say, 5 per cent. which is likely to be spread very generally over the industry, and (2) a change which may be attributed to a few specific projects, such as some new factories or extensions, for which individual estimates can be made. Estimates of the first kind are liable to be much more inaccurate than those of the second kind. Unfortunately the more precise figures (say 5,000 workers) are sometimes added to the round estimates for the whole industry (say 100,000) in order to produce a somewhat silly total (105,000).

[2] It may be objected that there was a good deal of inflation in these later

to manpower policy. It must be observed, however, that the transition from a more fully planned to a more liberal economy can give rise to problems of its own: thus the more positive controls (e.g. the direction of manpower) may be abandoned, while the more negative ones (e.g. price control) are retained and frustrate the positive operation of market forces. It may not be easy in practice to avoid getting a bit of the worst of both worlds in this way, and no doubt we did so to some extent over these years.

The limitations to manpower planning since the war have been stressed in order to prevent too direct a comparison with the war years from leading to an underestimate of both the difficulties and achievements of the quinquennium which followed. If a very broad generalization may be permitted it may be said that there has been a tendency to abandon the full-scale manpower budget and to revert to something more like the earlier war-time policy of granting priorities for particular lines of production. At all events the manpower budget, which was described as a major instrument of planning in the *Economic Survey for 1947*, has been accorded a less prominent place in succeeding *Surveys* and has finally disappeared altogether from the *Survey for 1951*, although 1951 was expected to be a year of labour scarcity. The official attitude at the middle of the period was clearly described in the following passage from the *Survey for 1948*:

> Labour is not at present, and is unlikely to be in 1948, the limiting factor in economic activity as a whole. Any projected distribution such as that given in Table XXI [one of the tables in the *Survey*] is therefore largely a forecast of the results of other factors, and if some figures turn out differently it is not necessarily in every case a matter of regret. But the labour forces proposed for coal, agriculture and textiles are targets in the full sense. They are numbers believed to be required to reach specific objectives in the set of output and export targets decided for 1948. The attainment of these manpower targets is among the first necessities in 1948.[1]

These considerations are relevant in studying Table 2 which compares the distribution of manpower as forecast in the *Surveys*

years. It is necessary, however, to distinguish between a 'cost-inflation' and 'an inflationary gap' (or 'demand-inflation'). See Wilson, op. cit., Chapter 10 and Appendix.

[1] Cf. also C. A. R. Crosland, 'The Movement of Labour in 1948', *Bulletin of the Oxford Institute of Statistics*, May 1948. Sometimes the targets themselves were changed in the course of the year (e.g. building in 1948).

with the distribution which actually emerged each year. In this table I have italicized the figures for coal, agriculture and textiles, and also those for the armed forces and for national and local government service, employments directly controlled by the Govern-

TABLE 2

Changes in Manpower Distribution in Great Britain 1947–50 (Thousands)

	Old Series				*New Series*			
	End-1946 *to End*-1947		*End*-1947 *to End*-1948		*End*-1948 *to End*-1949		*End*-1949 *to End*-1950	
	Targets or forecasts	*Actual*	*Targets or forecasts*	*Actual*	*Targets or forecasts*	*Actual*	*Targets or forecasts*	*Actual*
Total working population . .	−177	+9	−330	−103	+15	+133	+32	+225
Armed forces	*−257*	*−327*	−389	−311				
Ex-service personnel on release leave	*−200*	−177	−73	−105	*−51*	*−90*	*−36*	*+16*
National and local government service .	*−80*	*+14*	*−23*	*+57*	*−15*	*−17*	*−18*	*−24*
Unemployed	+2	−98	+150	+48	+2	+12	+40	−32
Employed industrial population .	+358	+597	+5	+208	+79	+228	+46	+265
Coal	*+40*	*+28*	*+32*	*+8*	*+10*	*−17*	*−26*	*−19*
Other mining and quarrying . .	nil.	+2	+2	+1	nil	nil	+3	−1
Public Utilities, transport, and shipping	+14	+60	+32	+32	−9	+18	−7	−5
Agriculture and fishing	*+39*	*+9*	*+57*	*+36*	*+9*	*−5*	*+9*	*−20*
Building and civil engineering .	+50	+75	−164	−7	nil	−18	−42	−15
Manufactures:								
Building materials . . .	+22	+16	−15	−5	—	—	—	—
Metals, engineering, and vehicles	+29	+54	+24	+32	−1	+1	+8	+117
Textiles	*+70*	*+37*	*+108*	*+38*	*+24*	*+43*	*+16*	*+28*
Clothing		+24	−31	+8	−1	+38	+11	+1
Food, drink, and tobacco . .	+39	+24	−23	+19	+2	+27	+5	+24
Chemicals		+15	−1	+7	+7	+16	+6	+12
Other manufactures . . .		+75	+12	−6	+8	+47	+21	+32
Distribution	+55	+42	−31	+55	+16	+75	+31	+53
Professional, financial, and miscellaneous		+136	+3	−10	+14	+3	+11	+58

Sources: Annual *Economic Surveys* and *Ministry of Labour Gazette*. Separate estimates for those employed in the making of building materials are not given after 1948.

ment. It should be noted, that the division of manpower between large industrial groups conceals from time to time urgent requirements for additional labour in sub-categories which are not shown separately here, such as iron foundries, the tinplate industry, railway-wagon manufacture, and the manufacture of ball-bearings.[1]

In view of what has been said above, it will not be supposed that

[1] Cf. *Economic Survey for 1949*.

even where targets were set the figures were at all precise, and a failure to achieve them did not always result in a corresponding failure to achieve a programme for output—if any such programme had been prepared. Moreover, the targets were meant to be 'realistic', as they were during the latter part of the war: they did not necessarily indicate the full amounts by which the Government would have liked to change the distribution of manpower but only as much of a desirable change as was felt to be at all feasible. Now if a 'target' is made too 'realistic' it merges into a forecast, and the blurring of the distinction has become increasingly apparent with the passage of the years. In the *Economic Survey for 1950* all the prospective figures for the end of the year are frankly described as a 'forecast, not of the requirements of the industries listed, but of the changes in the distribution of the working population which it is expected will take place'.

Table 2 indicates the difficulty of making accurate forecasts even of the working population; if, however, the figures are compared with those in Table 1 it will be seen that, as percentages of existing labour forces, the errors were usually small. The essence of the problem was to meet the needs of a few key industries, and the numbers involved were not large—at most a couple of hundred thousand in any one year.[1] That did not mean, of course, that the task was an easy one.

In concluding this section it may be said that, although the specific targets were rarely achieved within the given time, many of the most urgent needs for additional labour appear to have been gradually met over the period. Coal-mining was the outstanding exception. In the past miners have largely been recruited from miners' sons, and the shortage of these juveniles, already foreseeable before the war, has created a problem which is likely to overshadow the industry for many years to come. To make matters worse the industry had lost manpower during the war, and in view of the unpleasant and dangerous nature of the work, it was extremely difficult to recruit new workers who would be prepared to stay permanently in the mines. The need for additional labour was, of course, intensified by the fall in production per man year: absenteeism was twice as great as before the war, and pre-war output per manshift actually worked was restored only in 1949. It is

[1] Cf. H. W. Robinson in *Oxford Studies in the Price Mechanism* (ed. Wilson and Andrews), chapter vi (ii).

broadly true to say that the heavy investment in the industry did no more than offset, by the end of our period, the other factors tending to reduce productivity per manshift, without offsetting either the increase in absenteeism or the fall in the total number of miners. The failure to find more miners must therefore be regarded as the major disappointment of the period.

No doubt there were other respects in which the distribution of manpower could have been improved. In particular the vast increase of 750,000 in the numbers employed by central and local governments calls for some justification. On the other hand, there is less evidence than might have been expected of the drift into the distributive and service industries, of which there has been much talk.[1] The numbers employed on the production of exports could no doubt have been increased with advantage, but one cannot say to what extent this would have involved a shift of workers between industries and regions.

Manpower controls

When the war ended it was generally agreed that it would be neither possible nor desirable to make a protracted use of the extensive powers conferred on the Ministry of Labour by the Emergency Powers Act of 1950.[2] As the *Economic Survey for 1947*

[1] The distributive trades in particular are often regarded as the villain of the piece, but the numbers employed (including the self-employed) were half-a-million less in 1948 than in 1938, and continued to fall thereafter. It may well be that some of those employed in this industry would have been better occupied in making exports, but the same may be true of some of the other industries serving the domestic consumer; it is not clear why distribution in particular should be singled out for criticism. Even if it were true that retail margins could be lowered by less restricted competition or by some other means, the outcome would not necessarily be a large release of manpower.

[2] The principal Orders issued under the Act during the war may be briefly summarized. Regulation 58A(i) provided for the direction of labour to any area subject to a 'fair wages' clause; the Minister was always reluctant to use this extreme power and no doubt persuasion often sufficed. (The number of people actually directed has not been published.) The success of persuasion was all the greater, however, because it was known that it could be backed by direction. If either persuasion or direction were to be used to good effect, the Ministry had to acquire more information about what each person was doing; a number of Industrial Registration Orders were therefore introduced which applied to skilled workers, and these were followed by the more general Registration for Employment Order which was gradually extended to successive age-groups. The Undertakings (Restriction on Engagement) Order ruled that firms in the engineering and building industries could only engage workers through employment exchanges; this enabled the Ministry to control the movement of workers

observed, '. . . the Government's influence in peacetime must be exercised by other less drastic methods'. In the main the controls over manpower were quickly abandoned, although Essential Work Orders were not removed for some years from agriculture and the coal-mining industry. This policy was not, however, maintained consistently throughout the quinquennium. The fuel crisis of 1947 and the precarious position of the balance of payments led the Government to introduce the Control of Engagement Order which required workers within certain age limits to change their jobs only with the consent of the Ministry of Labour or through its agency. The Order undoubtedly facilitated the Government's efforts in 1948, although the achievements fell short of the targets, notably in the coal-mining industry. But it soon proved difficult to direct labour in peace-time, and the number actually directed was very small; in the main, the Ministry relied on persuasion—although it is fair to add that people were more likely to allow themselves to be persuaded when they knew that in the end they could be directed. The administration of the Order was gradually relaxed and in March 1950 it was withdrawn. About the same time the Essential Work Orders were removed from agriculture and coal-mining; these Orders had helped to prevent a movement out of these vital industries, but they had also been such a powerful deterrent to new recruits that on balance they were felt to be a hindrance.

Official interference with the freedom to choose one's job has always been resented in this country, and both the Government and the electorate have tended to view manpower controls with considerable disfavour. This is a healthy attitude. If we began to show an uncomplaining acquiescence in the use of such controls as a *permanent* feature of economic policy, we should have passed a political watershed. The reluctant and *temporary* resort to such controls in an emergency may not raise such fundamental issues, but the restriction of liberty is not the only consideration. It still remains to consider the efficacy of these controls to meet the needs

and to prevent 'poaching'. The same Order made it an offence for any firm to engage men from agriculture or the coal-mining industry. This policy was strengthened in 1941 by the Essential Work Orders which provided that employees in undertakings engaged on essential work could neither leave nor be dismissed, except for some serious misdemeanour, without the consent of the Ministry. An effort was made to mitigate any hardship involved in the use of these controls by various rulings about wages and factory welfare.

of a particular situation. It is perhaps unfortunate that the matter is usually discussed in a manner which implies that it is simply a choice between liberty and efficiency.

We have seen that the manpower budget was useful mainly when large changes in the distribution of the labour force were required, and the verdict seems to be broadly similar with regard to controls. When large masses of workers have to be moved, and moved quickly, it may be dangerous to rely upon the normal operation of the price mechanism even if there is no inflation, and impossible to do so when there is an inflation. But if the necessary adjustments are on a smaller scale and there is rather more time to spare, the free movement of workers is to be preferred, not only on grounds of democratic principle but also because compulsion may result in inefficiency. When labour is conscripted, there are liable to be a good many round pegs in square holes, and a good many resentful workers who are liable to do as much harm as good in the occupations to which they have been directed. Moreover, if labour is scarce and employers, with inflation to help them, are under little financial restraint to keep down costs, there may be some 'hoarding' of labour and some concealed unemployment which the controllers will be unable to detect or to prevent. Unless large numbers of workers have to be moved quickly, these disadvantages may well outweigh the advantages of the controls. With regard to the years 1945–50 it seems broadly true to say that once demobilization had been completed, the changes in the distribution of manpower which still needed to be made were not on such a scale as to warrant a *general* use of compulsion. As we have seen, some industries were in urgent need of moderate increases in their manpower, but if controls are to be used to meet a few selected needs, they must be mild in form and must involve only a moderate interference with the worker's freedom of choice. His choice may be restricted to one of four vacancies, but he may find among the four one which he does not regard as vastly inferior to the sort of job he would, on the whole, have preferred. This was the kind of control adopted in 1947, and it is the kind which has now been restored (Notification of Vacancies Order, 1951). A much tougher policy would be needed to drive men into an uncongenial occupation like mining and to keep them there long enough for them to be really useful. In wartime, when everyone is under some kind of compulsion, such toughness may be possible, but when widespread compulsion is

neither desirable nor necessary, the problem of selecting the conscripts for an unusually unpleasant industry, like coal-mining, is far from easy in a society which has some regard for considerations of equity—and which has no labour reserve of political prisoners who can be used at need.

Although controls were abandoned in 1950, the Ministry of Labour could still exercise persuasion both on a personal basis through the employment exchanges and by means of public advertisement. There is little to be said in general terms about this method, but its importance must not for that reason be neglected.

Full employment and wages

Before the war there was heavy unemployment, and its subsequent disappearance has obviously made it more difficult to obtain labour for expanding industries. Admittedly it would be wrong to imply that the pre-war labour force was largely static and that firms in need of more employees could always get them at their local employment exchanges: with nearly nine-tenths of the labour force employed on the average, and higher fractions employed in the good years and in the more prosperous areas, additional demand could not always be met locally; there was, in fact, a substantial volume of migration between both regions and industries.[1] There is a further qualification to be made: over the greater part of the period of full employment, monetary demand was not merely sufficient to prevent unemployment of the type discussed by Keynes; it was much stronger than that and created a sellers' market on which relative needs could not make themselves adequately felt. The contrast between these years and those before the war does not therefore merely reflect the consequences of full employment. If there had been no inflationary gap, increased demand in some sectors would have been roughly matched by decreased demands elsewhere, and the labour market would have acquired a far greater degree of flexibility.[2] If labour is not to be conscripted, it is of the utmost importance to ensure that the

[1] Cf. *Report of the Royal Commission on the Distribution of the Industrial Population*, Cmd. 6153; H. W. Robinson, 'The Response of Labour to Economic Incentives', Part I, *Oxford Studies in the Price Mechanism*; S. R. Dennison, 'Wages in Full Employment', *Lloyds Bank Review*, Apr. 1950.

[2] 'Full employment' does not mean that everyone can keep permanently the particular job he happens to have at some arbitrary date, but rather that, if a job is lost, there will be a sufficient demand for labour in the country to ensure

numbers employed in some occupations are not artificially swollen by excessive monetary demand, while other industries, of critical importance to the economy, are desperately short of workers. It is not suggested, of course, that the closing of the inflationary gap would solve all problems. There would still be time-lags before the necessary transfers took place and probably a little more frictional unemployment—of short duration—than we have had since the war. (Lord Beveridge, it will be recalled, regarded 3 per cent. as the minimum level of unemployment which could reasonably be expected in a society which did not resort to compulsion.) Moreover, if working conditions in an industry are very peculiar, as in coal-mining, the aversion to joining it may be so strong as to keep recruitment at a still inadequate—though no doubt improved—level after the closing of the inflationary gap. But although a disinflationary policy may not provide a complete solution, it seems to be the most important step which can be taken towards the achievement of a satisfactory position in the labour market.

The transference of manpower is likely to proceed more quickly, and with less frictional unemployment, if workers can be encouraged to move by the offer of higher rewards—in a comprehensive sense which allows for conditions of work and other amenities as well as for cash payments. The pull of higher rewards has always been one of the determinants of the distribution of manpower, although it is scarcely possible to assess its force relatively to that of other factors; it can be inferred that more reliance must be placed upon it when there is full employment.

A high level of employment enhances the importance of relative changes in wages, but it may also make it more difficult to bring such changes about by means of the existing methods of collective bargaining. With only a tiny fraction of their members out of work, the position of the trade unions has been greatly strengthened, and the more important of them may now advance, with no serious fear of rivals, the claim to be the most power-

that another can be found. It is not merely a question of finding a compromise between the ideal of security and the ideal of a higher standard of living. *In order to provide work for all in an economy which is dependent upon foreign trade, the industrial structure and the distribution of manpower must be flexible. If employment policy ignores this fact, it will defeat its own object.* Indeed, the frictional unemployment of a dynamic economy may be regarded as the modest price which it is prudent to pay in order to avert the catastrophe of mass unemployment due to a shortage of raw materials. Cf. my *Modern Capitalism and Economic Progress*, chapter 12.

TABLE 3

Average Hourly Earnings in the U.K.—1938–50
(All classes of workers)

	Percent. increases Oct. 1938–April 1948	*Percent. increases Oct. 1948–Oct. 1950*
Manufacturing industries:		
Pottery (p)	153	10
Chemicals and allied trades	120	8
Pig-iron (blast furnaces) (p)	85	7
Iron and steel melting, rolling, &c. (p)	97	7
Tinplate (p)	74	8
Iron and steel tubes (p)	113	8
Wire and wire manufactures (p)	126	9
Motor vehicles and aircraft (including components and repairs)	108	6
Shipbuilding and ship repairing	123	1
Bolts, nuts, screws, &c.	164	6
Textiles (average)	150	13
Cotton (p)	177	12
Wool (p)	143	12
Rayon, nylon, &c. (p)	116	15
Linen, &c. (p)	140	14
Hemp, rope, &c.	167	12
Jute (p)	131	16
Textile finishing (p)	123	12
Lace (p)	105	12
Leather, leather goods, and fur	141	7
Clothing	130	8
Food, drink and tobacco	123	8
Manufactures of wood	127	10
Printing, publishing, &c. (p)	90	8
Rubber	152	6
Building, contracting, &c.	96	10
Electricity, gas, and water	100	6
Local authorities (non-industrial)	85	4
AVERAGE FOR INDUSTRIES COVERED BY M. OF L. INQUIRY	120	6
COAL (average for all workers per manshift worked)	179	7
AGRICULTURE (male workers: weekly)	165	11

1. The estimates of changes in hourly earnings are based on half-yearly data collected by the Ministry of Labour, but not all the industries covered by these inquiries are represented separately in the table above. In 1948 the basis of the statistics was modified and the New Series, starting with Oct. 1948, is not strictly comparable with the Old. Coal and agriculture were never covered by the

inquiry. The post-war figures for agriculture are legal minimum weekly wages; in view of the new regulations about hours, overtime, and holidays, these figures understate the improvement.

2. Within the group of manufacturing industries, those followed by (p) had First Preference for additional manpower in 1948.

3. The figures are averages for all workers (except in agriculture), and may therefore be affected by changes in the proportion of skilled to unskilled workers, by changes in the respective rates of pay of skilled and unskilled, and by changes in the proportions in which men, women, and juveniles are employed and in their respective rates of pay. The following estimates for all the industries covered by the inquiry illustrate the divergent rates of change in hourly earnings as between men, women, and juveniles:

	Men	*Youths*	*Women*	*Girls*	*All*
Percentage increase between Oct. 1938 and Apr. 1948 .	99	130	134	175	120

ful organizations of producers in the country. In such circumstances there is a danger that money wages may be pushed up too fast relatively to changes in productivity: this is the first point. The second danger—which is not solely attributable to full employment—is that wages may not alter relatively to each other in the manner required; this may occur if the unions try to maintain traditional differentials,[1] or, more simply, if the officials feel obliged to make demands, irrespective of the relative industrial needs for labour, because that is what they believe they are there for. Some economists have been so impressed by these dangers as to suggest that the existing methods of collective bargaining should be superseded, or at all events supplemented, by some form of national wages policy. It may be conceded that the State should express its views about the changes in the total wages bill and in the distribution of manpower which it thinks desirable; but there is much disagreement as to whether it should go far beyond this by trying to control or even to influence relative wage-rates. Mr. Worswick discusses this difficult topic, together with the policy actually adopted, in Chapter XIV, and it will only be possible here to make some incidental references as we proceed.

Table 3 suggests that the difficulty of securing relative adjustments in wages under conditions of full employment is not insuperable. Appreciable changes have in fact occurred. Indeed, Mr. A. Flanders observes: 'The main contrast is between a relatively

[1] Cf. *Statement on Personal Incomes, Costs and Prices*, Cmd. 1948. The T.U.C. General Council recognized, for its part, the need to adjust differentials.

stable inter-relationship of wage rates in the unemployment period and a considerable shift in this relationship in the full employment period.'[1] Over the latter period, existing differentials have clearly not been maintained irrespective of circumstances, and it is encouraging to observe that the changes have tended to favour the undermanned industries.

Whether the changes have been big enough is another matter; larger relative increases in the undermanned industries would no doubt have been desirable, although in the nature of the case it is impossible to say how much larger they should have been. In assessing these developments, however, we must bear in mind that the undermanned industries had been, in the main, low-wage industries before the war; they had to catch up with the others and that was bound to take time. This was one consequence of the fact that some of the main industries which were so short of labour over these five years, had been relatively overmanned, with consequently heavy unemployment, in the thirties. If we must for this reason be careful not to draw too gloomy inferences about the insufficiency of changes in relative earnings, we must also reflect that it is probably easier to pull up on other industries than to forge ahead and pass them. Indeed, the changes which occurred may be regarded, to some extent, as part of the general tendency towards greater equality. Just as the margins between the wages of skilled and unskilled workers have become smaller, so the differences between highly paid and other industries have tended to diminish.[2] Since there is reason to believe that this tendency was not merely the incidental outcome of the pull of supply and demand, but reflected other forces as well, the relative increase in earnings in the undermanned industries cannot be regarded as unambiguous evidence of responsiveness of wages to manpower requirements. Moreover, it is one thing for the unions to permit a change in differentials when the effect is one of levelling up, but it may be another matter if the margin between earnings needs to be widened.

So far we have been concerned with inter-industrial variations

[1] 'Wages Policy and Full Employment', *Bulletin of the Oxford Institute of Statistics*, July–Aug. 1950, p. 227.

[2] Cf. Flanders, loc. cit.; and K. G. J. C. Knowles and D. J. Robertson, 'Differences between the Wages of Skilled and Unskilled Workers', *Bulletin*, Apr. 1951. The narrowing of margins may be attributed to a number of factors: flat-rate cost-of-living bonuses; restraint on the part of the unions in the better-paid industries; increases in wages fixed by statutory authority.

in earnings, but variations within each industry between different parts of the country are also desirable. The common modern practice of fixing national rates of pay has, therefore, been criticized on the ground that it tends to smooth out such differences. These agreements, it is true, refer to *wage-rates*, which are usually less than *earnings*, and the information available, though very incomplete, suggests that earnings may vary as between regions, even when rates are uniform.[1] This is fortunate, but the fact remains that sharper differences could be expected if the basic rates were allowed to reflect local requirements.[2]

Without attempting any further study of the complexities of collective bargaining and the wages structure, we may concede at once that there is much scope for improvement in various ways, of which some modification of the practice of fixing national rates is one. It would be a different matter to suggest that the achievement of full employment has *in itself* prevented the traditional methods of collective bargaining from working satisfactorily. Caution must clearly be exercised in attempting to draw conclusions about the behaviour of wages under full employment from the experience of our quinquennium: in addition to the structural maladjustments left by the war, the labour market was disorganized, like the markets for commodities, by an inflationary gap, large at the beginning and never completely closed. The adjustment of wages is one part of the price mechanism, and the latter cannot function properly if there is a strong sellers' market, and if relative requirements are blurred by such measures as price control, which are designed to suppress rather than to remove the excessive demand. Thus there is insufficient evidence for the claim that the sectional demands of the unions, unless co-ordinated by a higher authority, will produce a senseless structure of wages which conflicts with the need to attract workers to some industries rather than others. Even during these difficult years, collective bargaining did not work quite as badly as that, and with full employment but no inflationary gap, its performance should be better still. It is worth developing this line of thought very briefly—if only because in some of the dis-

[1] Cf. articles by Knowles and Robertson on 'Earnings in Engineering', *Bulletin*, June 1951, and July 1951; and on 'Earnings in Shipbuilding', Nov.–Dec. 1951.

[2] Cf. E. H. Phelps Brown and B. C. Roberts, 'Wages Policy in Great Britain', Lloyds Bank Review, January 1952. Even the rates of wages are not completely uniform as between regions; cf. *Ministry of Labour Gazette*, Dec. 1951.

cussions of a national wages policy, the effect of monetary demand and supply seems at times to be ignored.

Suppose that wages rise in an undermanned industry and that some other unions, in industries where there is no demand for additional output and no need for extra manpower, then ask for comparable increases.[1] If the true state of affairs is not concealed by the existence of an inflationary gap, the employers will be more reluctant to yield to the unions' demands than they have been in recent years, and this in itself will be an improvement. If wages—and, with them, prices—are not to get out of hand, it is clearly desirable that both sides should be in earnest; it is not obviously in the interests of the working class as a whole that employers should grant demands with little resistance merely because they know that the inflated level of monetary expenditure will enable them to pass on the cost in the form of higher prices. It may be that by using the strong bargaining power which full employment confers the unions will be able to secure their demands even when there is no inflationary gap, but they will be aware that if they press for too much, the employers will be unable to meet the cost and will be obliged to reduce the numbers on their payrolls. We have too little experience to say with confidence that this deterrent will prevent the pressing of demands not warranted by the relative position of an industry, but it will at least be a strong deterrent. It seems reasonable to conclude that if the relative changes in wages have been, on the whole, in the right direction over the past decade of inflation, the outcome would be still more satisfactory if there were no inflation.

Similar considerations apply in appraising the danger of a *general* wage-price inflation in conditions of full employment. It is true that wages rose more than productivity over our period,[2] but this cannot be attributed simply to the truculence of the unions in conditions of full employment. There were other factors at work—an inflationary gap which produced a sellers' market for labour;

[1] Even if there is no need for additional labour, wages may go up in an industry with rising productivity. That is a different matter.

[2] There are serious statistical difficulties in trying to compare changes in output per head and changes in wages, but a broad indication will suffice here. Output per head, as measured by C. F. Carter (*L.C.E.S. Bulletin*, Aug. 1951), rose by 8 per cent. between 1946 and 1950. Bowley's index of average weekly wage-rates went up by 18 per cent. over the same period, while the official estimates of average weekly earnings rose by about one third.

a world inflation which pushed up import prices and the cost of living; an easy-money policy on the part of the banks. It is significant that wages rose less rapidly in the later years, and although this was largely a response to the Government's policy of restraint, it may also have reflected the decline in the inflationary pressure. With full employment but no inflationary gap, the position might have been transformed. Admittedly a wage-inflation *may* occur even if there is no demand-inflation, but it cannot proceed very far without incurring the penalty of unemployment unless the banks are prepared to create indefinite supplies of money;[1] a firmer credit policy will bring this deterrent into operation. If any unemployment should then appear, it must not be attributed to *deflation*—there may be no deflation; it will rather be the warning outcome of *wage-inflation*. Some economists believe that the unemployment would have to be really heavy to give pause to the unions; others are much more optimistic; neither can appeal conclusively to experience. We may safely assume, however, that the unemployment would be far less than would be suffered if our highly vulnerable economy were disorganized by prolonged inflation.

Naturally much will depend upon the good sense and moderation of the unions, and it cannot in fairness be said that these qualities were entirely lacking during our quinquennium.[2] Nor is it, in any case, merely a question of opposing a sectional and unreasonable belligerence; it is also a question of how to give some indication as to what is the right course of action to be followed by the various sectional groups in an economy where a more authoritarian control over wages and the distribution of manpower is not desired. However public-spirited the officials of a union may be, it is not always easy for them to be sure whether they are showing restraint in what is really the national interest, or merely betraying the interests of their members, when the real facts

[1] Banking policy between 1945 and 1950 may be described as one of *laissez-faire*—in the sense that the banks supplied the public with what money it wanted with little attempt at control. As Professor Robertson has observed, '. . . if we are to pass finally into a world in which the causal influence exercised by the so-called monetary authorities on the quantity and the value of money is limited to registering and to implementing the decisions of the trade unions about the rate of money wages, there will surely be international as well as internal stresses to be encountered'. *Money* (ed. of 1948), p. 222.

[2] The danger of wage-price inflation is enhanced by the fact that profits are estimated in a way which usually exaggerates their size; it is of the utmost importance to correct the false impressions so engendered.

of the position are concealed by a fog of inflation. We have been told often enough that the size of the national cake is limited, but that can only be made clear in the daily business of the market when the amount of money is also limited.

Much will also depend upon the severity with which it is necessary to impose the policy of monetary restraint. In part, this will depend in turn upon whether or not other countries are suffering from inflation and rising prices. If they are, it is possible that the pound may at times appear to be undervalued, and a rise in costs and prices may then improve the balance of payments. It must be recognized, however, that a sharp-witted policy of expediency may conflict with the objective of convincing the workers that moderation in the pressing of claims for higher money-wages is in their long-run interest; where the education of public opinion is an important part of a policy, temporary opportunities for gaining an advantage may sometimes have to be sacrificed because public opinion is less adaptable than the minds of the planners. Nor is the balance of payments the only consideration: the bad domestic effects of rising prices must also be kept in mind. In general it seems unwise to regard a wage-price inflation with acquiescence merely because the pound is believed to be undervalued. If the undervaluation is expected to persist the pound should be appreciated. If it is likely to be no more than a temporary phenomenon, it will be rash to encourage a rise in domestic costs that cannot easily be reversed when circumstances change. After all, exporters can always raise their prices without being obliged to do so by rising costs, and can lower them again when this seems appropriate. Greater flexibility in the prices of exports may possibly be desirable; that, rather than an irreversible rise in money wages, is the solution which deserves further consideration.

While opinion may differ as to the magnitude of the benefits to be derived from a positive banking policy, there seems no reason for rejecting it on *a priori* grounds. It is a card we have held back for years, and we cannot afford any longer not to play it. Only experience can show how good a card it is. There is all the more reason for playing it because of the partial atrophy of fiscal policy —which affords a further example of how events can out-run ideas. One of the main features of the Keynesian Revolution was the tendency to accord to budgetary policy the degree of emphasis previously accorded by most economists—in particular by Keynes

himself—to banking policy, as a means of preserving stability of prices and incomes. It became fashionable to neglect banking policy and to prescribe budget deficits as a remedy for deflation and budget surpluses as a remedy for inflation; it must be recognized that, although it went too far, there was much to be said for this change of emphasis. As a cure for inflation, however, budgetary policy can only be fully effective if taxation is substantially below the limits of taxable capacity, so that a large surplus can be acquired without crippling both workers and employers by the severity of the levies on marginal incomes.[1] This condition is no longer satisfied. Government expenditure has risen so much and the opposition to economies is so strong, that fiscal policy has lost much of the flexibility which its earlier exponents believed it to possess. Apart from the difficulty of acquiring a large surplus on the budget, various other possibilities are no longer open to us—for example, the more flexible use of subsidies in order to cushion a little the effect on the cost-of-living of sharp but temporary rises in import prices. A disinflationary banking policy is obviously to be regarded as a supplement to budgetary policy rather than as a substitute, but the partial atrophy of the latter makes it all the more important to have some such supplement. At the beginning of our period, it is true, the large cash reserves held by businesses and by private people would have weakened the effectiveness of a policy of credit control, but towards the end of the period these reserves had dwindled away. In the future we may expect the control of credit to have an important bearing not only on business investment but also on the course of wage-rates.

Special needs and foreign workers

The conquest of inflation, if that had been possible, would have done more than anything else to solve the manpower difficulties of the years 1945–50; but there is reason to believe that some shortages would have remained acute. Once again we return to the main example—the coal industry. If the price of coal and the wages of miners had been (relatively) higher, the position would no doubt have been improved on balance. But allowance must be made for a

[1] High marginal taxation not only lowers the rewards for hard work; it also reduces the *net* differences between wages in different occupations and thus weakens their effect on mobility.

further complication: higher wages might have attracted more recruits, but they might also have made those already in the industry work less hard (that is to say, in textbook language, the supply curve of effort may be backward-sloping). After all, it is not surprising that when a miner has secured the kind of real income he is accustomed to, he should prefer more time in the fresh air to extra pay, and although the problem presented by this understandable preference is not insoluble, the solution is bound to be complicated. What is needed is a deliberate attempt to make the miners more interested in a higher standard of living; but the latter goes up, not smoothly, but in uneven jerks, and probably the most important need is the provision of new and more attractive houses. All this is bound to take time, and meanwhile we need more coal. If the domestic labour force cannot be bribed or persuaded to produce the coal, there is an obvious case for employing foreign workers.

After the war it was not difficult to find such labour on the Continent or among refugees and prisoners-of-war already in the country, and between 1945 and 1950 about 200,000 were engaged, of whom rather less than 20,000 went to the coal-mines. This was a help, but a much larger number could have been found for the mines, and the national officials of the unions recognized the case for doing so. The main opposition came from the rank-and-file, and the reasons are not obscure. There are obvious difficulties about the employment of foreigners,[1] and although the experience of some countries shows that they can be overcome, the opposition to foreigners is likely to be much stronger in the emphatically non-cosmopolitan mining valleys of this country than, say, in northern France. Moreover the miners have been influenced by their fear of a recurrence of pre-war conditions when there were too many miners, and may also have reflected that they could expect larger increases in wage-rates if coal remained fairly scarce. The miners have suffered much in the past, and we need not attempt to attribute moral blame; nevertheless, we must record that, in its consequences, this opposition to foreign workers was one of the worst examples of restrictive practices during the quinquennium.

[1] One difficulty is the imperfect English of foreign workers which may clearly enhance the dangers to which miners are subjected in an emergency. If some pits could be manned completely with foreigners under their own managers, as is done, I believe, in some cases in France, the danger would be less.

Conclusion

Over the five years with which this book is concerned, there were marked changes in manpower policy. The manpower budget, so important during the war, remained useful during the transition to a peace-time economy when the shifts in the distribution of manpower were on a large scale; thereafter, as the movements required grew smaller and as civilian demand at home and abroad asserted its importance through the market, this instrument of planning lost its importance and finally changed in character from being a programme to being a forecast. As for the manpower controls, they were largely abandoned at an earlier stage, and although a mild form of control was subsequently restored for a time, the Government was clearly not inclined to regard such measures as suitable to a peace-time economy. Other controls, however, remained in use, though their number decreased, and exercised an indirect influence on the distribution of manpower. In the latter part of the period, perhaps the most significant development was the growing, though still incomplete, success of the attempt to close the inflationary gap; the gradual weakening of the sellers' market enabled the price system to work rather more effectively both as an indicator of requirements and as a force controlling the supply. The relative changes in wages were, on the whole, in the right direction, if somewhat inadequate in amount.

The distribution of manpower could, no doubt, have been substantially improved, but in general the period can scarcely be described as one of outright failure in manpower policy—especially when allowance is made for the fact that raw materials and capacity, rather than labour, were often the limiting factors. The coal industry was the outstanding exception: here the failure was undeniable and its consequences far-reaching and severe. Of the achievements of the period, the one most generally praised was the maintenance of full employment; it was also, perhaps, the most deceptive. The danger of mass unemployment from a shortage of raw materials was present all the time: with regard to coal, it was only narrowly averted—at the expense of exports; with regard to imported materials, we depended, notwithstanding the success of the export drive, upon the generosity of our friends over the greater part of the period. As the new decade of the fifties began, we were faced with the heavier task of maintaining employ-

ment without foreign aid, and it was clear that its successful performance would depend in part upon our overcoming our obsession with the idea that deflation was the principal threat to full employment. The problem was, then, to evolve a modified policy for full employment which would not, by fostering an inflation of costs and prices and by stiffening the joints of the economy, defeat its own object and bring upon us the very evil it was designed to avert.

CHAPTER XII

THE LOCATION OF INDUSTRY

By MICHAEL P. FOGARTY

THE recent history of the location of industry in Britain is an outstanding example of the fact that the economic is never more than one analytic aspect of social action. It never covers all the aspects of an act, or field of action, or by itself provides the criteria of action.

The analysis of a field of action falls under four heads. The first is to define the need; that is, the facts of the situation in relation to ethical requirements. Ethical requirements are that the return from any activity, in money (or money's worth) or directly in human relations, to producers as well as consumers, and in the long as well as the short run, should satisfy three main conditions.

(i) Fairness in relation to the value of work done: the value, to the community in general and over a period of time, of the social function performed by each individual or group.

(ii) Fairness in relation to human needs: the personal qualities required for each function and the standard of living normally expected by the community of those performing it.

(iii) Fairness in relation to social costs: charges or benefits falling on the community at large as well as those falling on the producers or consumers immediately concerned in each case.

It follows that a town or district should have within reach occupational openings as varied, rewarding, and stable, as satisfactory from the point of view of the local community as a whole—as regards, for instance, the taxable capacity of the local community or its human relations—and yielding a product in cash and kind as highly valued by consumers and the wider national and international community, as are offered to men and women of similar ability elsewhere.

Secondly, it is necessary to consider the variables in the situation—in this case the distribution of industry and the industrial population—and the choice between the various new patterns which might be brought into existence. The average income yielded by an area to its inhabitants can be increased along three main lines:

the increase or re-direction of trade, or migration, or the introduction of new trades. It is also possible to palliate an area's difficulties, as apart from permanently solving them, by transfers of income from elsewhere.

Thirdly, the means of promoting these changes must be studied. These also are of three main kinds, namely, competition, management or control, and consultation or co-operation. The choice between these will depend not only on their immediate contribution to the welfare of producers and consumers, but on their contribution to the clarity and rationality of social accounting.

Finally, it is necessary to consider the time element. Competition, control, and consultation operate in the context of certain institutions, a given culture, and an established pattern of personality, which for most purposes must be taken as fixed. Major changes in social practice must, however, be accompanied by certain changes in even these fixed elements; the creation of new institutions, growth of new administrative practices, revision of established valuations. This takes time; in the case of the biggest changes, indeed, a time measured in generations rather than in years.

How has recent British location policy worked out under these heads? And where and how far, in this process of evaluation, execution, and structural change, can the monetary mechanisms with which the economist is concerned be of use?

Defining the need

The definition of needs on which location of industry policy in this country has operated since the war took place for the most part between 1924, which can be regarded as the end of the immediate post-war disturbances after the First World War, and 1942, when the last of a classic series of reports on location and town planning policy[1] was published. Three main areas of need were disclosed.

Firstly, the export and in some cases also the internal markets for several leading industries declined, or failed to increase fast enough to justify—in the face of rising technical efficiency—maintaining employment. These included coal, cotton, shipbuilding, iron and steel, linen, and jute, which were concentrated largely in certain areas in the north and west of the country, and in Northern

[1] The Barlow, Scott, and Uthwatt Reports. See Bibliography.

Ireland. Other industries were simultaneously expanding. But these were at the outset localized for the most part in other areas, and expansion in each area was broadly in proportion to the amount of such industry it already contained. The result was that the absolute amount of such expansion in the areas of declining industry was small. In consequence, these areas became subject to severe unemployment, much forced emigration, and what can best be called 'civic poverty', as well as to severe disturbance of human relations. This unemployment, after being temporarily absorbed by war work from 1939 to 1945, threatened to and in fact did reappear. It has been the chief concern of post-war location policy.

Secondly, over a much longer period—in fact from the 1870's—employment in agriculture fell until, by 1940, the resulting depopulation of the country-side was seriously increasing the difficulty of providing communal services or maintaining a satisfactory social structure. The productive capacity of agriculture was also being reduced through the absorption of land by the spread of the towns and urban industry. The significance of this was sharply underlined by the deterioration of the terms of trade during and since the war. The decline in the farm population has been halted since 1939, but many of the problems set up by that date remain unsolved.

Thirdly, and again over a very long period, the growth of the big towns, while presenting certain social advantages, came by 1940 to be agreed to be on balance disadvantageous. This implied that a dispersal of their population was desirable, and therefore also of their population's places of work. This problem remains substantially unchanged by the war.

To these older subjects of discussion is now, fourthly, being added a realization of the need for industrial development in the under-developed countries overseas, and possibly also for the strategic dispersion of key defence activities.

The appropriate form of development

Much stress was laid in the twenties and thirties on the value of migration as a solution of location problems. A net emigration of some 1¼ million people took place from the depressed industrial areas alone. A further large number left the rural areas and the centres of the big towns, including 700,000 from the City and County of London. Much of this movement was spontaneous, but

official aid was lent by the Ministry of Labour and by the slum-clearance, housebuilding, and town-planning policies of local authorities and the central government. Migration from the big towns, or at least their centres, is of course essential, since there it is precisely the agglomeration of population that creates the problem. To promote such migration has remained official policy, as illustrated notably by the intention (already acted on to some extent) to move industry from London and other centres to new towns under the New Towns Act of 1946. In the case of the depressed rural or industrial areas, on the other hand, there is a choice between migration and the other possibilities referred to above, and on second thoughts the pre-war policy has been reversed.

Migration did in fact prove capable, before the war, of removing the whole surplus of potential unemployed from the country districts, except in Northern Ireland and a few outlying areas of Wales and Scotland. It made a big contribution towards reducing unemployment in the depressed industrial districts, especially those of them with a low rate of population growth. It can be shown that it would have made much more had unemployment been kept consistently at a 'full-employment' level in the more prosperous districts. It caused, however, severe social disorganization and psychological loss. Some of this was avoidable through better organization. A fairly considerable disturbance, however, extending over a generation or more, seems to be inevitable wherever large-scale migration takes place. To this must be added that in some cases material costs for building roads, houses, and other services have to be incurred in areas of immigration, but would not be required if people remained in their own districts. In a few cases services in depopulated areas have had to be maintained at high cost because they are now operating below capacity. Special point has been added to all this by the severe housing shortage, and consequent discouragement to migration since the war. Except in certain worked-out mining areas, migration has accordingly ceased to play a major part in official policy for depressed or potentially depressed areas since the war.[1] Some spontaneous movement has however gone on.

[1] This, it should be made clear, refers to *net* migration. There is a considerable movement of population in and out of most districts: the question here is whether there has been a substantial net balance.

Specialization and the increase or redirection of trade have played a smaller part than migration in location policy. The processes customary between states—alteration of exchange rates, or relative prices and wage rates, or administrative control over the flow of goods and services—are largely ruled out between regions within Britain. They share a common currency, and custom has come to regard Britain as a single administrative area with free trade and, in principle, a common standard of life and wages. There were some feeble attempts in the thirties at 'buy local' campaigns in the depressed areas, a slight preference for depressed areas in the allocation of government contracts, and a decreasing number of cases in which areas tried to attract business on the basis of real or alleged cheap labour. Except for the last, these did not amount to much; and the wage differentials which made the latter appear possible have now been largely eliminated.

The one important exception, and it is a very important one, concerns measures to raise the general level of demand, not only in the depressed areas. At least half of the improvement in employment and incomes in the depressed areas between 1938 and 1949 was due to the high national level of demand, and consequent increase in the—mainly inter-regional—sales of the areas' products.

The introduction of new industries raises two issues. Specialization, firstly, has been a bone of contention. The depressed areas, urban or rural, were, precisely, areas of specialized industry. The first reaction of many to the collapse in these areas was therefore that specialization must at all costs be avoided. There must be enough variety of industries in each region or large labour market to offer a reasonable hope that if some were declining, others would be growing up. But further thought and experience have modified this view. The specialization of central Lancashire on cotton, or of Birmingham on (among other things) engineering, does certainly add to their efficiency in serving both consumers and workers so long as demand for these products is maintained, and it seems doubtful whether the sort of fall to be expected in these days is a good argument against specialization. A fall in the demand for a product may be due to the trade cycle. A cyclical slump arising from within this country may however now be ruled out. Should a slump arise from overseas it is doubtful whether it will be expedient, for a country as dependent as Britain on the quickness and readiness of the exporting industries, to transfer men out of

these industries as a short-term measure to increase employment. As regards a long-term fall in the demand for this or that product, it now seems clear that in the absence of a great accumulation of problems of this sort neglected in the past, or a sharp break in the course of development such as is caused by war, such declines can in Britain usually be taken care of by bringing in new industries; or at worst by migration. Heavy dependence on one or two firms remains dangerous, and it also remains necessary to provide in each labour market a variety of jobs—it may be in one industry or firm—sufficient to provide outlets for varying abilities and tastes. But the demand for 'balanced' or 'diversified' industry in any other sense has died down. It may be revived by considerations of defence, both for fear of bombing of highly concentrated industries and because—as illustrated, for instance, by the doctrine of the 'plough on every farm' in agriculture—familiarity with various types of production, and the ability to adapt quickly, are important factors in industrial mobilization.

It was very commonly said in the early days of location policy that the introduction of new industries must involve a conflict between the consumer interest in cheap goods and the interest of territorial communities in opportunities for work at a given place. There can indeed be such a conflict. In many cases transport charges, or the fact that materials, or management, or technical facilities are available only at a given site, mean that a firm which is to serve consumers cheaply must settle at some one place, or one of a few: near customers, the source of materials or services, or some convenient point of trans-shipment in between. Examples of trades tied in one or other of these ways are retailing, grain-milling, and coal-mining. Firms or branches (in any industry) too small to employ a full range of managers or technical staff are often in the same position.

But Britain is a country of short distances, and the services commonly required by industry are widely available. Though workers with highly specific types of skill may be easy to come by only in this specialized area or that, men and women capable of training in such skills—and *a fortiori* in lower or semi-skills—are available everywhere. Medium or large plants, in such circumstances (or small plants needing only common services which are or can easily be provided anywhere), provided that they use only a small weight of fuel and material per £ of product, and do not

depend, like retailing, on direct and frequent contact between customer and plant, can usually choose between a great many sites. Experience shows that the choice of sites by firms in a large part of British industry tends to turn on minor or marginal factors, such as the easy availability of a building (this was true even in the days before building controls), or the fact that the founder lives in a certain place. Many even of the stronger linkages can be stretched; a firm may have to be in the London region, but may find Welwyn or Crawley as satisfactory as Stepney. Experience with the settlement of new industries in the last few years has shown that if the trades expanding in the thirties were weakly represented in South Wales or Lancashire, this was not because these areas were under any disadvantage in these trades. It was rather that they once had (indeed still have) very great advantages for others which by the thirties had become depressed. South Wales did not make hosiery, not because it was unsuitable for that trade, but because it was exceptionally well suited to raise coal or make steel. Experience has also shown that the maxim 'give a dog a bad name and hang it'—the existence or otherwise of goodwill—applies to location as to other economic matters. Early efforts to attract business men's attention to the possibilities of the depressed areas broke on this, and many years of propaganda, including the effect of the actual settlement of firms in these areas, have been needed to make the facts understood.

Even where there is some additional cost involved in opening a plant in a new area instead of extending an existing one, this often is or need be only temporary. The 'threshold costs' of training labour, experimenting with plant layout, and running in a managerial organization may indeed be higher away from a firm's main plant and office or in an area unfamiliar with industry of that type. There is also a certain risk in entering an unfamiliar area. But the risk and cost can be greatly reduced by modern methods of training labour, by adequate information services on the facilities available in each area, and by laying the responsibility for development, up to the point where it becomes specific to a particular firm, on an agency familiar with local conditions. This will usually be an industrial estate company which supplies fully developed sites, supplies or arranges for the supply of public services, if necessary builds and lets factories, advises the business man on local transport or labour problems or on sources of finance, and relieves him

of the need to sink capital in land and buildings, and of much of the managerial effort of setting a plant up. It may and often does reduce his costs as well as his risks. There may still remain some disadvantage—some additional threshold costs—involved in opening up in a new and remote rather than a near or familiar area. But the fact that these additional costs are, precisely, of a temporary character has come to be seen as justifying a subsidy to offset them in many cases where a permanent charge on consumers would have been unjustified. This is, of course, the 'infant industries' argument as commonly used in discussions of tariffs.

The conclusion from recent experience is, then, that the pattern of industry in Britain is flexible enough to allow new trades to be introduced, if needed, within daily travelling distance of all but a few isolated parts of the country without imposing more than a short-term burden on consumers.

It is not clear how British policy would have faced the choice between an—other things being equal—undesirable degree of migration and a loss of consumer efficiency, had such a choice been needed. If location policy is to be rational, it must use procedures which make it as easy as possible, whichever site is chosen, to enforce efficient production at it. It must facilitate clear commercial and social accounting. But the quotas, subsidies, or tariffs needed to maintain a firm in a high-cost location complicate accounting and open the door to manœuvres by which a veil can be drawn over any inefficiency of the firm itself. The loss to commerce or taxpayers through maintaining a firm in such a location is measured, not only by the difference in the cost of production of an efficient firm in that location and in some other, but by the additional inefficiency which these devices may permit. But in the favourable conditions of Great Britain the choice has not been needed. Because of the danger that subsidies may lead to inefficiency, it has been and remains a principle of British policy that the location of a firm must be satisfactory from the point of view of consumers as well as of territorial communities. After a brief relaxation in the year or two after the war, firms applying for building licences in sites favoured from the point of view of local communities have been required to conform to substantially the same criteria of production for defence, export, or other essential purposes as applicants elsewhere. The most serious exception to the rule of optimum location from the point of view both of costs to consumers and of

satisfaction to territorial communities may prove to be defence; though the divergences of this sort caused by the Second World War were less marked than might have been feared.

A similar line of argument can, of course, be applied to the industrial development of underdeveloped territories outside the United Kingdom.

The evolution of policy on the appropriate form of development, in the twenty years since it began to be seriously studied, may be summed up thus. Much weight was at first laid on migration. As its social disadvantages became apparent, it ceased to be treated as a normal tool of location policy except in the case of the movement of population from the big cities or the clearance of an occasional small and isolated village, as notably in the older coalfields. Specialization, after a period under a cloud, has regained respectability as a means of increasing an area's power to maintain or raise its standard of life. The introduction of new industries without imposing a burden—or more than a temporary burden—on consumers has proved possible on a much greater scale than was at first supposed. Defence, however, may turn out to provide substantial exceptions to both these latter conclusions.

The choice of methods

The role of competition in influencing the location of industry has often been misunderstood. Before the middle thirties firms picked their sites so as to enable themselves to compete and survive in the market, and often (by no means always) without regard for the welfare of the communities concerned. The Board of Trade was probably right in stating to the Barlow Commission in 1938 that, as a result, firms did on the whole choose sites which enabled them to keep down prices to the consumer. This, however, is not the end of the story of competition. For territorial communities in their turn proceeded, and down to the war to an increasing extent, to compete to attract the business (or tourist trade) they needed, or alternatively, as in the case of certain residential and tourist towns, used planning powers to keep out types of industry not desired. In many towns and several important regions, including all the chief depressed areas, development councils[1] were set up, grouping local authorities, business and labour interests, and often repre-

[1] Not to be confused with development councils for particular industries under the Industrial Organization and Development Act of 1947. See Chapter XX.

sentation from the regional university. These surveyed and advertised their regions' facilities, advised and assisted business men looking for sites, in some cases provided facilities themselves, and played a great part in persuading the Government to join in improving the facilities of the least-favoured areas.

It is far from clear how much could have been done by local and regional bodies alone to attract industry to territorial communities in need of it. The Government's attitude to this sort of competition remained ambiguous to the end; favourable to action by local authorities in the depressed areas and tourist districts, definitely opposed to, and effectively hampering, similar action in other industrial districts. The powers available to local authorities were varying and usually weak; very few, for instance, had powers approaching those of Liverpool, which founded its own trading estate and financed firms settling on it. Authorities in the depressed areas, in special need of new industry, were financially weak; the relative equalization of local resources dates only from the Local Government Act of 1948. The general level of employment and activity only rarely, before the war, reached levels at which there was a shortage of labour in the more prosperous areas, and a substantial inducement to them to withdraw from the competition. The achievements in the face of these disadvantages, in the years of depression, and with no state aid, of a body such as the Lancashire Development Council give considerable food for thought.

However, as things actually were in the thirties progress on these lines was too slow to be acceptable to public opinion. The total deficit of jobs in what are now the Development Areas—to take only one branch of location policy—over and above 'normal' unemployment, was about 600,000–650,000. Stronger measures were clearly needed to make any substantial impression on it. And it was clear that at least one major problem of location, the piling up of industry in Greater London and possibly also in other big towns, was unlikely to be solved on these lines, inasmuch as the local authorities and other interests concerned were unconvinced of the need for change. Under heavy pressure, especially from the Labour movement and from local authorities and development councils, government intervention—in short, control of as apart from competition for location—accordingly began about 1932. A series of surveys organized by the Board of Trade through the regional universities was followed, after a decent interval, by the first

Special Areas Act of 1934. This set up Commissioners for England and Wales and Scotland to deal with four special areas of heavy and prolonged unemployment in South Wales, West Cumberland, parts of the north-east coast, and the west of Scotland. The powers of the Commissioners proved too limited and were enlarged by a further Special Areas Act in 1937. Industrial estate companies, government-financed, were set up in each special area. A Treasury Fund was set up to offer loans to firms moving to special areas, and a government subsidy was granted to the Special Areas Reconstruction Association, a fund set up for the same purpose by private interests in the City. Riskier propositions were catered for by the Nuffield Trust, a private fund of £2,000,000 formed at the end of 1936. A small subsidy was offered towards the initial costs of firms setting up in special areas, and a preference, other things being equal, in the allocation of government contracts was given both to these firms and to others already in the areas or elsewhere where there was heavy unemployment. Grants were made to local authorities and associations for improving public services and amenities. The facilities of the areas were widely advertised, and contact kept with firms known to contemplate setting up new plants. In collaboration with the Home Office strong pressure was put on refugees from Nazi Europe, proposing to set up business in Britain, to do so in the special areas or other areas of high unemployment.

These government activities were, however, administered in close co-operation with local interests. The Commissioners held as a matter of principle—their conception of how the democratic process should work—that an operation such as the revival of the depressed areas should be left as much as possible to the people of these areas themselves; in short, that a measure of competition between the areas was desirable, on grounds of morale, as well as a degree of overall control. They accordingly relied heavily on local interests to run estates, undertake research, to advise business men on sites, and to advise government funds on business men's creditworthiness.

Action on these lines was barely getting into its stride at the outbreak of war, the most effective measures dating from 1936–8. It had, however, already achieved quite substantial results. 37,500 workers were employed or about to be employed in 1946 in factories built by the Commissioners for the special areas (not includ-

ing, that is, any built after the war, or Royal Ordnance or government standard factories built during it) and an uncertain further number in other plants brought into the Areas as a direct result of government policy and the work of local development councils. The outstanding case of this sort was Messrs. Richard Thomas's steel strip mill at Ebbw Vale. The extent of this achievement was not fully recognized at the time. New factories take time to reach their full level of employment and by the time they did so the war cut short the publication of employment figures. Also it was only gradually realized that the chief significance of the new plants lay in breaking down the legend that the special areas were fit only for their traditional industries. The pre-war policy, had, however, three important defects. It touched only one of the four main problems of location, omitting those of the big towns, the countryside, and the underdeveloped territories overseas. The powers available under it, though not ineffective in attracting new plants to the special areas, were still too weak to effect a mass diversion of industry from the big towns and especially London. And the inducement to move even to the special areas was lowered inasmuch as chronic unemployment, and therefore ease in obtaining workers and buildings, was allowed to persist even in the rest of the country. It was feared by many towns—Birmingham expressed this particularly forcibly to the Barlow Commission—that more industry for the special areas meant more unemployment elsewhere.

These weaknesses have been largely corrected since the war. A full-employment policy is in operation, and the resistance to location policy by local authorities correspondingly reduced. The pressure on firms to look for sites where labour is or (as in the new towns) will become available, has increased. The east midland shoe and hosiery industries, for example, have been forced by the shortage of women workers since the war to set up numbers of small new plants both in the depressed industrial and also in rural areas. The pre-war powers have been revived for a number of development areas, which include the old special areas, in two Distribution of Industry Acts in 1945 and 1950. New powers have been taken to extend these areas, if necessary, or to create new areas. The powers to subsidize new plants in the areas—to cover their moving costs and running costs in the first few years—have been strengthened. Effective national and regional machinery for research and planning have been brought into existence by admini-

strative arrangement, primarily between the Board of Trade, Ministry of Housing and Local Government, Ministry of Labour, and Department of Health for Scotland, on which the chief responsibility for location policy was laid by the White Paper on *Employment Policy* in 1944. Under the Town and Country Planning Act of 1947 the primary local planning authorities are now the counties and county boroughs, which are—by contrast with the county districts which were primary units until then—units big enough to play a useful part in the control of the location of industry. The same Act greatly increases local authorities' powers to provide facilities, such as industrial estates, in their areas, and the Local Government Act, 1948, substantially equalizes the financial resources available to them for this as for other purposes. The Town and Country Planning Act also provides that no new factory exceeding 10,000 square feet may be built without a certificate from the Board of Trade that its site conforms to the requirements of location policy. This provision is designed in particular to limit the extension of industry in the big towns. A firm must also now, like any other developer undertaking substantial building work, obtain a building licence. Since the demand for building has greatly exceeded the supply ever since the war, this is a very powerful lever for influencing location. It was vigorously used from 1944 to 1948 and could be similarly used again.

Even before the war, location of industry policy was tending to become genuinely national, in the sense of embracing areas of all kinds. The chief powers available related to the Special Areas, along with a few others, such as Liverpool or the Garden Cities, operating under special local Acts or constitutions. Smaller degrees of assistance, notably to emigrants in the allocation of government contracts, and by way of finance for firms taking up sites on trading estates, were however offered to other areas of high unemployment. Under the Loans Facilities Bill of 1939, withdrawn only on account of the outbreak of war, it was proposed to offer, through local development councils, loans to firms moving to these areas without restriction of site. Several such areas, notably Lancashire, did much for themselves through development councils. Prosperous communities such as Birmingham protested loudly and effectively at any threat or suspected threat to divert an excessive amount of industry away from them.

It remains true today that rather greater powers to influence

location are available in development areas than elsewhere. But the pre-war trend has been carried to its logical conclusion. The planning process and the most important powers—those of blocking undesirable, and providing facilities for desirable development—now extend to the whole country, and so by implication to all three of the major problems of location within Britain. The Board of Trade restricts development in London and promotes it in areas such as south Yorkshire, where new industry is needed—in that case mainly for potential women workers—but full Development Areas status has not been granted. Preference in the allocation of government contracts may be given to any area of high unemployment, not to Development Areas alone.

The area of planning might indeed be extended still further. The measures taken to promote industrial development in the Colonies lie outside this chapter. It should be noted, however, that they have not yet been linked up with the internal machinery in the United Kingdom. A Board of Trade regional office does not yet—as it well might—press on business men the claims of the Gold Coast equally with those of South Wales.

A firm proposing to build a factory now requires, firstly, the above certificate from the Board of Trade, which is given or refused on the basis of a policy laid down ultimately by the Cabinet, and worked out in detail in each region by a Distribution of Industry Panel on which sit representatives of the above four Ministries, and of others as required. This policy is concerned with the distribution of industry between local authority areas. Secondly, the firm must have a permit from the local planning authority, referring to its siting within the authority's area. Thirdly, these requirements are in addition to those imposed on other than location grounds such as those of the Health or Factories Acts, the Central Land Board's levy on land values, or the restriction of building licences to cases where firms can prove high priority on grounds of defence, export, or an essential contribution to the home market. Fourthly, the firm may qualify for one or other of the measures of assistance available under the Town and Country Planning or Distribution of Industry Acts.

The irritating delays in location decisions by government departments which occurred in the first three years after the war have been largely eliminated. Much more autonomy, after a year or two's experience, came to be allowed to regional officers in settling

location cases, and a big reform of procedure took place at the time when the Town and Country Planning Act came into operation in 1948. Cases ceased (normally) to be referred to the full Distribution of Industry Panel, and building licensing ceased, at least formally, to be used as an instrument of location control. An application for a location permit is now ordinarily disposed of—within the general framework of national and regional policy—on the sole responsibility of the Board of Trade and within a matter of days. In other respects the post-war system of planning and control has done what was required of it. Unemployment in the development areas has been reduced from figures of the order of 20–30 per cent. in 1937 to around 2–4 per cent.; a figure still above the national level but in absolute terms small. Most of the credit for this must go to national full-employment policy. But some quarter of a million new jobs were provided or about to be provided by September 1949 in new factories and extensions undertaken in the development areas since the war. While some of these were in the traditional industries of these areas, and would probably have arisen in any case as a result of national full-employment policy and the end of these industries' period of decline, most can fairly be credited to the deliberate control of the location of industry. The other problems of location, and especially that of the existing industry of the big towns, have as yet been hardly touched: though much new industry which in the last few years would otherwise have gone to the big towns, especially London, has been diverted elsewhere. This can, however, be attributed not to any lack of desire or effectiveness on the side of location policy, but to the acute lack of capital for any form of industrial development, and the general agreement that among location problems that of the development areas has been entitled to the highest priority. The development area policy itself ceased, after the winter of 1947–8, to have high priority relative to other forms of investment. This was partly because the back of the areas' problems had by then been broken, and partly because, in view of the balance of payments and later defence needs, which had become pressing, other types of investment appeared to the Government more urgent. Whereas 54 per cent. of the factory building approved in Great Britain from January 1945 to June 1948 was for the development areas, the corresponding proportion from July 1948 to June 1951 was only 19 per cent.

In the transition from pre- to post-war policy the pre-war practice of using locally responsible agencies wherever possible was dropped. Various reasons may be given for this; the need for speed in starting the post-war policy, effective decision on it having been delayed till the war was nearly over; the fact that responsibility was shifted within the Government to a new Department and a body of officials unfamiliar with pre-war practice; and the general tendency of the first post-war years to adopt monolithic rather than pluralistic forms of social organization. It is at any rate the case that after 1944 the local and regional development councils practically ceased to count, except to a limited extent in Scotland, and that local authorities were in most cases—there are one or two outstanding exceptions, notably Liverpool—reduced to a very minor role. The older industrial estate companies, which had been essentially local bodies, were brought strictly under the control of the Board of Trade. This tendency was further strengthened when a series of public services—gas, electricity, and long-distance road goods transport—was taken out of the hands of, in many cases, local firms and authorities and nationalized. There have been some signs of a swing back in the opposite direction; the position of local authorities, in particular, has been strengthened by the Town and Country Planning Act of 1947. But it remains true that, in the distribution of industry between districts, local authorities and interests have no share in the decision; and it is often correct to say that they are informed rather than consulted. In the execution of location policy they likewise take a far smaller part than was envisaged by the Commissioners before the war. It is not correct to say that the difference between the pre- and post-war systems is between centralization and decentralization, since there is much decentralization within the central government's machinery. But it can be said that control by the central government has been not merely added to but substituted for both consultation with and competition between local communities.

The case for allowing subordinates, or subordinate agencies, to manage their own affairs so far as they are capable is of course in a democratic community a commonplace. Welfare is affected by the way governments are run as well as by what they do. The onus of proof lies on those who claim in a given case that the social mechanisms which permit this—competition and consultation—should be supplanted by control. In this case the exclusion of local agencies

even from functions which pre-war experience showed them to be well fitted to perform may have been necessary in the year or two after the war, given the long delay in reaching decisions about location policy, and consequent haste in putting it into operation. For in 1944 the central government's machinery of location was—in connexion with war economics—in existence and working, whereas much local machinery would have had to be created or revived. But it is doubtful whether any good reason can be found for maintaining the new system five or six years later when ample time had been allowed for making a change. And it seems probable that the failure to enlist more fully the responsibility of local interests will appear as an even greater defect once a serious effort is made to move industry out of the big towns.

The failure to consult and co-operate with local communities on any adequate scale—to share responsibility with them—has fortunately not been paralleled in the case of the relation between the controllers of location and the industries controlled. It has been, and is, a specific principle of British location policy that firms should not be coerced. Immediately after the war, when the advantages offered to firms moving to development areas were relatively great, the line between persuasion and coercion sometimes became obscure. In principle, however, the siting of a firm remained even then an equal contract in which the Board of Trade and other Departments represented the needs of local communities as such, and of consumers as seen by official planners, while firms represented those of consumers as reflected in the market. There has in effect been a balance of power, in which no party can ignore the others, and, especially in the case of major developments, a good deal of both formal and informal discussion to reach a mutually satisfactory solution. As a result, the siting of industry seems on the whole, since the war, to have been satisfactory from both main points of view.

Looking back in the perspective of twenty years' history, it seems clear that the conception of location of industry policy held notably, among the Commissioners for the special areas, by the late Sir Malcolm Stewart, was essentially correct. The needs of consumers and of territorial communities would be catered for so far as possible through the mechanism of the market, that is through competition between firms and regions or local communities. This would be supplemented. but not superseded, by a measure of state con-

trol, designed partly to correct and complete the results of the market process or to equip, for instance, local authorities to play a more effective part in it, and partly to allow for factors, such as the strategic, outside the competence of any one local community. This control in its turn would be supplemented by close consultation between controllers and industry, and between the State and local interests, designed to secure where possible a unanimous decision for which all parties would accept responsibility. As actually practised before the war, this system needed supplementation. This could however have been done without destroying it; the type of machinery required is not difficult to work out. The results would have been more satisfactory as regards human relations in the local community, and so far as can be seen no less satisfactory in any other respect.

The time element

The strength and weakness of British location of industry policy can both be attributed largely to the structural elements of institutions, culture, and motivation in which it is embedded. Its development, over now some twenty years, has illustrated the prime difficulty of any social change, on the one hand, of speeding progress sufficiently to keep pace with the need, and, on the other, of holding it back long enough to allow the necessary structural changes to be made. When one considers the extent of the changes involved in this case—in the motivation and practice of business men and the Government, in institutions and administrative machinery, in building new firms into the structure of communities—and traces through in detail the process by which these have been brought about, the rate of progress even in the pre-war years seems by no means slow. But it is also right to bear in mind that in each of those years, in the areas with which location policy was and is chiefly concerned, a quarter of a million men had been out of work for a year or more. From the angle of the Jarrow or South Wales hunger-marcher of the thirties, the wheels of social change turned very slowly indeed. If they nevertheless turned fast enough to relieve the pressure before it reached revolutionary heights, this must be attributed as much as anything to the fact that the most pressing location problems of the last decade arose at a time when the movement of ideas which has proceeded since the Industrial Revolution was approaching one of its major turning-points. The decisive

action in matters of location, taken just before and since the war, would almost certainly have come less quickly had similar problems arisen twenty years earlier. It is of course also true that the existence of location problems, and especially that of the special areas, was a main contributing factor to this movement of ideas.

To this coincidence with a certain phase in the larger movement of ideas and institutions must also, however, be attributed location policy's main weakness. As between the three great mechanisms of social action, the first wave of social change after the Industrial Revolution represented the affirmation of competition, and the second, which helped location policy on its way, that of control, and particularly of state control. The third seems likely to place the accent on consultation or co-operation, in short on human relations. In its present form, location policy took shape too early to take due account of this. In the perspective of the thirties the balance of methods approached in the time of the Commissioners for the special areas was not seen as a basically sound system, allotting each of the three mechanisms its proper place; needing to be improved and supplemented, particularly with a licensing system, a full-employment policy, and the extension of power to a wider geographical area, but not to be scrapped. It figured rather as an ineffective variety of competition which must be done away with before the rising star of control. In the perspective of the fifties the Commissioners' emphasis on consultation and human relations appears in a more favourable light.

Location and the economist

Monetary mechanisms play the same role in location as in other fields of social action. They aid valuation and sanction or enforce action. They figure as tools of accounting, clarifying the position of both the consumer and the local community, both the individual and the collectivity. They determine the survival of competitive business, and supply the local authority or central government with the means both of influencing business and of achieving rationality in their own decisions.

It will be obvious that many of the key decisions and valuations in the processes described above have only a limited—if any—monetary element. The Board of Trade's decisions in granting location certificates, for instance, rest largely on planning surveys in which cash accounting plays almost no part, though it could do

so. They follow a code of practice much of which is not explicit, even within the Board, but which can be read out of the case-histories in its files. This is a matter for the politician rather than the economist. There remains, however, a large field open for economic analysis.

This falls into two parts, the accounting of individual concerns and that of territorial communities, be they local or regional. Firms themselves often find it unnecessary to make a precise analysis of their location costs. Such an analysis can however be made, and is of value for public policy as well as to firms faced with location decisions. This has been done occasionally in the past, usually on a small scale. The first large-scale attempt in this country was begun by the National Institute of Economic and Social Research in 1949. The Department of Applied Economics at Cambridge and, on a smaller scale, Glasgow University, have promoted studies of the social accounts of regions and small areas.

The difficulties of such analysis are not only technical but institutional. One of the major difficulties in any accounting system is at present to know the precise social—normative—significance to attach to a price or a balance sheet in a world of semi-controlled prices. Control in itself causes additional complication, but not necessarily greater confusion; it may, and should, lead to a more rational price structure. But this presupposes that the control itself follows clear-cut rational lines, which in recent years has manifestly not been the case. This problem of course reaches far beyond the field of location, as, indeed, do many of the technical problems of accountancy involved. These link up with such wider issues as the measurement of productivity or the treatment of depreciation.

Location accountancy, like so many other branches of econometrics, is only now being seriously opened up. It is of some practical importance to remember that location policy has been carried on up to now on the basis of information adequate, certainly, for defining and coping with such glaring deficiencies as that of the depressed areas, but quite inadequate for the finer, marginal type of adjustment needed once a broadly sound distribution of industry has been achieved. It is a healthy sign that the pressure for research to make good this deficiency has come notably (as for instance in the case of the National Institute's inquiry) from the Departments concerned with location.

STATISTICAL APPENDIX

TABLE 1

Enterprise in the Depressed Areas, 1923–37 Twenty-three Rapidly Expanding Trades

	Percentage of workers in each area who were in these trades in 1923	Percentage of workers in these trades in Gt. Britain who were in each area		Percentage of increase in employment in these trades in Gt. Britain, 1923–37, which took place in each area
		1923	1937	
London, Home Counties	56	33	33	32
Midlands . . .	41	12	12	11
Lancashire . . .	27	11	11	11
West Riding, Notts., Derby . . .	24	8	9	9
Central Scotland . .	32	6	6	5
North-east coast . .	23	3	4	4
South Wales . .	18	2	2	3

Source: Royal Commission on the *Distribution of the Industrial Population* (Cmd. 6153).

TABLE 2

Unemployment and Migration, 1923–37

Ministry of Labour Divisions	Insured workers				Out of work twelve months or more: percentage of all unemployed in Feb. 1938	Total population. Number of immigrants or emigrants (net), 1923–36
	Percentage increase in number in work, 1923–37	Percentage out of work				
		Average		Excess of		
		1932	1937	1932 over 1937		
London .	45	13	6	7	7	1,017,000
South-East.	59	13	7	6	7	
South-West	40	17	8	9	9	+142,000
Midlands .	32	20	7	13	16	+12,000
North-East.	14	26	11	15	18	−554,000
North-West	12	26	14	12	23	
Northern .	2	37	18	19	36	
Scotland .	12	28	16	12	30	−294,000
Wales .	−14	37	22	15	31	−361,000
GREAT BRITAIN	24	22	11	11	21	−62,000

Based on Ministry of Labour and Registrar General's data.

TABLE 3

Population per Square Mile of Crops and Grass, England and Wales, 1871 and 1941

	1871	*1941*
Farmers and their families	24	20
Farm workers and their families	68	30
Others directly dependent on agriculture, approximately	90	50
TOTAL, approximately	180	100
Typical agricultural population of a parish . . .	720	400

As estimated by Stamp in *The Advancement of Science*, Oct. 1949. The estimates for 'other' population are very rough.

TABLE 4

County of London Plan, 1943, and Greater London Regional Plan, 1944

Persons employed in factories in the County of London, 1938 .	743,000
Persons employed in manufacturing, Greater London (including County), 1931	1,264,000
Number of factories employing twenty-five persons or more known to have moved from the County to Outer London, 1932–8 .	203
Approximate employment.*	20,000
Plans propose removal to Outer London, or out of London altogether, of factories employing about	258,000

* Assuming that these factories employed, on the average, the same number as the average for all factories employing twenty-five or more opened in Outer London in this period.

TABLE 5

New Factories or Extensions, 5,000 sq. ft. and Upwards, Great Britain, January 1945–June 1951

	Approved	*Completed*
1.1.45 to 30.6.48:		
Development Areas:		
Number	1,055	460
Value (£000s)	81,598	16,980
Other areas:		
Number	1,995	n.a.
Value (£000s)	70,278	n.a.
1.7.48 to 30.6.51:		
Development areas:		
Number	1,035	835
Value (£000s)	60,440	55,363
Other areas:		
Number	5,258	n.a.
Value (£000s)	260,274	n.a.

Source: *Monthly Digest*. 'Approved' covers all stages up to but excluding the grant of a building licence, including, since 1 July 1948 when the Town and County Planning Act of 1947 came into force, the grant of an Industrial Development Certificate by the Board of Trade (above, p. 265). A building licence must also be obtained before work can proceed.

TABLE 6

Provision of Certain Services in the Development Areas, 1945–9

Housing, 1945 to 30 September 1949:	
As proportion of all in Great Britain:	
Houses built in development areas	18½%
Insured male workers (1947)	19½%
Services provided under the Distribution of Industry Act, 1945:	
Derelict sites cleared for industrial use	159
Grants to local authorities to clear sites for amenity	23*
Grants to improve water supply and sewerage disposal (total cost of schemes £8,000,000)	159
Special loans to improve gas supplies (before nationalization) (total amount £709,000)	30
Houses provided or arranged for under special schemes for:	
key workers	3,000
firms' staffs	400
Firms receiving Treasury loans (total arranged for £1,549,350)	36*

* To 1 March 1950.

TABLE 7

Unemployment in the Development Areas

	Per cent. of insured workers unemployed											
	Men				*Women*				*Total*			
Development Area	*July 1937*	*Dec. 1945*	*June 1947*	*Dec. 1949*	*July 1937*	*Dec. 1945*	*June 1947*	*Dec. 1949*	*July 1937*	*Dec. 1945*	*June 1947*	*Dec. 1949*
South Wales	22	7½	6	4	12	19½	10½	5	21	11	7	4½
North Wales	19	4	3½	3	10	24	12	8	18	10½	5	4
South Lancashire	21	3½	3½	2½	12	7	5	2	19	4½	4	2½
Merseyside	23	3½	6½	5	10½	3½	2½	3	19½	3½	5	4½
West Cumberland	28	5½	4	2	10	7½	5½	2	26	6	4	2
North-Eastern	16	3½	3	3½	8	9	5½	3	15	5½	3½	3
Scottish	19	4	4½	4	14	6	4	2½	18	4½	4½	3½
GREAT BRITAIN	11	2	2	1½	7	2	1½	1½	10	2	2	1½

Source: Cmd. 7540, and Ministry of Labour, Dec. 1949 figures relate to the bigger insured population covered under the National Insurance Act of 1946.

TABLE 8

Average Daily Retail Sales, 1948

1937 = 100

	Food and perishables	*Clothing*	*Household Goods*
London and south	178	184	207
Midlands and South Wales	179	206	262
North-west	186	202	216
North-east	184	224	248
Scotland	190	233	241

Source: *Board of Trade Journal*, 16 July 1949, and information from the Board of Trade.

TABLE 9

The Wage Bill of the Development Areas. Approximate Annual Wages Paid Out in Mining and Manufacturing

1938–9	
Actual	£181,000,000
Actual, increased in proportion to the rise in the working-class cost of living from 1938 to 1948	£313,000,000
Wage bill for 1939 numbers employed at 1948 wage rates .	£425,500,000
1947–8	
At 1948 wage rates	£509,000,000

Based on the Ministry of Labour's inquiries, into earnings in Oct. 1938 (Apr. 1938 for coal-mining) and Apr. 1948, applied to the number of insured workers in employment in 1939 and 1947 (cf. Table 1). The estimate is rough and does not allow for illness or reduced earnings over holidays. Cost of living index as calculated by Dudley Seers, *Changes in the Cost of Living*, Blackwell, 1949.

TABLE 10

Rise of the Higher-paid Occupations in the former Depressed Areas. Administrative, Technical, and Clerical Employees in Manufacturing Business in Certain Regions, expressed as percentage of all Employed

Region	*Mid-1945*	*End-1949*
Northern	12	15
Scotland	13	14
Wales	11	14

Source: Ministry of Labour.

CHAPTER XIII

DIRECT CONTROLS

By G. D. N. WORSWICK

THERE are many ways in which the Government can influence the level and direction of economic activity. The distinction between 'indirect' and 'direct' controls is inevitably somewhat arbitrary, but it is a useful one. Indirect controls are those which operate primarily through the market. A change in the standard rate of income tax, or in the tobacco duty is an indirect control. The disposable incomes of consumers, or the prices confronting them are altered: otherwise they, and also producers, are left free to adjust themselves to the new situation. In the case of direct[1] controls the Government fixes prices, or allocates factors of production, or consumers' and producers' goods, in a different way than if prices and money alone were involved.

When we talk, say, of the Government control of manpower, both direct and indirect controls may be involved. If the Government makes an order that no coal-miners may leave the industry without official permission, that is a direct control. If it were to subsidize the industry, specifically to bring about an increase in miners' wages, which might attract more men into the industry, that would be an indirect control over the distribution of manpower.

Most of the direct controls we are concerned with in this chapter are the product of the war. The need for them arose, as Mr. Wiles points out in Chapter VII, because of the inadequacy of the indirect monetary and fiscal measures both to ensure supplies to the armed forces and to prevent open inflation during the war itself. They were retained after the war primarily to prevent inflation and to restore the balance of payments.

By far the most important controls throughout the period 1945–50 were the controls on imports and building licensing. To these might be added the direct control exercised by the Government over the investment programme because of its special relationship with government departments and the nationalized industries.[2] At no time in the years 1945–50 did it seem at all possible to remove

[1] The adjective 'physical' is sometimes used in the same context.

[2] Some financial control over private investment was exercised by the Capital

altogether either import restrictions or building licensing, although there were alternate relaxations and tightening up. Consequently there is little to be said about them in detail. At the same time it is as well to warn the reader that the amount of space in this chapter devoted to other controls is not intended to indicate their relative importance in the economy.

We shall begin by making a list of the types of control we shall be writing about in detail. This list specifically excludes the important controls of manpower, imports, and building already referred to: it also excludes the complicated system connected with land development, town and country planning, and so on, which are dealt with in Chapter XII. Then we shall sketch very briefly the extent to which these controls were removed after the war. In the next sections certain aspects of the controls are examined in greater detail, choosing particular examples which serve to illustrate problems which have a wider application. In the concluding section we shall attempt to discuss the relation of direct controls, of the type dealt with here, to the indirect controls, notably fiscal and monetary policy.

Direct controls

The war-time *raw material* Controls were mainly administered by the Ministry of Supply, but certain commodities, e.g. aluminium and building materials, were placed under other departments such as the Ministry of Aircraft Production and the Ministry of Works. After the war the Ministries of Supply and Aircraft Production were merged, and the raw material Controls were divided between the Ministry of Supply (and Aircraft Production) and the Board of Trade. The former took over the raw materials destined for the engineering and allied trades, mostly metals, while the latter took timber, textile materials, and a miscellaneous group of materials primarily used in the production of consumers' goods. The responsibility for buying raw cotton (but not its allocation) was transferred in 1946 to the newly established Raw Cotton Commission. Building materials remained the responsibility of the Ministry of Works.

During the war, and since, these Controls have performed one or more of the following functions:

Issues Committee, but this was far less important than the control by building licences.

(i) They have required buyers and sellers of the material to make returns about purchases, sales, and stocks of materials held.

(ii) They were responsible for ensuring adequate supplies of the materials. In a great many cases during the war, and since, they have exercised a monopoly in the purchase and sale of imported and home-produced materials.

(iii) They have fixed the prices of materials. Where the Control itself purchased the material, this meant simply the announcement of a selling, or issue, price. In other instances it meant issuing statutory Orders laying down maximum prices to be charged in private trade.

(iv) They were responsible for licensing the use of materials or for distributing them under the various allocation schemes, e.g. steel or cotton. In some cases they took active steps to encourage economical use of materials, e.g. timber and non-ferrous metals.

Apart from these functions, some controls undertook additional responsibilities during the war: for example, the Cotton Control supervised the 'concentration' scheme for closing down spinning mills and directing production into a limited number of mills running at full capacity. The Ministry of Fuel and Power allocated coal and petroleum products during the war, and since, until petrol allocation was dropped.

From 1939 to 1950 *export licensing* was in continuous use, sometimes covering the whole range of exports, at others being only lightly applied. Export licences have been used in some cases to prevent the export of machinery urgently needed in British industry, in other cases to prevent the export of raw materials needed in British industry, thus indirectly helping the export drive.

Production controls have two aspects. In the first place, the licence to manufacture a particular article was, with certain exceptions, restricted during the war to firms already producing similar articles before the war. Entry of new firms into a particular line of production was then stopped. In most cases production controls simply limited the quantity of goods which could be manufactured, or sold, in a given period. In certain cases, however, conditions were laid down about methods of construction. Some were 'austerity' restrictions, prescribing the maximum amount of

material to be used in an article, or prohibiting the manufacture of elaborate types—the most famous being perhaps the war-time prohibition, of short duration, on the making of turn-ups for men's trousers. The 'utility' type controls laid down certain specifications. In the first instance, manufacturers could only obtain materials if a certain proportion of their output was made in accordance with utility specifications. From 1948 onwards, as raw material allocations were removed, the proportion of production going into 'utility' lines was left to the manufacturer to decide. His decision was influenced by a number of factors, one of the strongest being the exemption from purchase tax enjoyed by almost all goods qualifying for the 'utility' mark.[1]

Price control is intimately connected with the specification of quality and the control of manufacturing. It was not, however, limited to those goods in which production controls also operated. Throughout the war and post-war years food prices have been more thoroughly controlled than those of other goods.

No study of the various controls already mentioned can be complete without reference to *consumer rationing*. As we shall see the allocation of textile materials, the control of prices and quality of clothing and other textiles and clothing rationing, formed a closely integrated system. To some extent the success of any one of these controls depended on the existence of the others.

The stages of decontrol

As the war came to an end the great weight of authoritative opinion in Britain was against any proposal for the immediate removal of the physical controls, as had happened after 1918. The reasons were simple and obvious. The Second World War had lasted longer than the First. In the Second World War the economy had been more fully mobilized, and had remained so for a much longer time. War damage, both at home, in the form of destruction of houses and other buildings, and abroad, in the form of the sale of assets and the accumulation of debt, had been far greater. Reasons which were advanced, unavailingly in 1917, could be advanced with far greater force in 1944. In addition, there was the decisive experience of the years after 1918.

[1] Utility fully fashioned stockings and furs were not exempt from tax.

Here is a typical expression of the attitude in 1944, taken from a Report on 'The Post-War Building Problem'.[1]

> The record of the first five post-war years in particular was profoundly unsatisfactory: a violent upswing followed by a prolonged downswing of building costs; a serious labour shortage followed by heavy unemployment; sharp reversals of Government policy; the process resulting in comparatively few houses being built at a heavy cost to public fun s. The contemporary sense of disillusionment is sufficiently indicated by the fact that the slogan 'homes for heroes' has become a byword. It is obviously important to avoid a repetition of this experience after the present war, and desirable therefore to consider closely the lessons which that experience has to teach.

The Coalition Government's White Paper on *Employment Policy* (1944) expressed the view that there would inevitably be a transition period of some years after the war during which consumer rationing, raw material allocations and other controls would be needed. Despite the virtual unanimity of authoritative opinion, the question of 'Controls' very quickly became a political issue dividing the Conservative and Labour Parties. In the General Election of 1945 and even more in subsequent by-elections, the former became associated in the public mind with a policy of 'off with the controls'. No doubt much of this was the inevitable exaggeration of party political controversy. Whether artificial or not, the dichotomy between an anti-controls and a pro-controls party had unfortunate consequences. For it enabled the Labour Party to put forward as a *sufficient* policy the maintenance of controls, and distracted attention from the more serious questions, whether the kinds of controls devised to meet the needs of war were appropriate in the altered circumstances of the post-war transition period, and whether it would continue to be possible to staff the controls adequately. During the war, government departments and industrial organizations were drawn closely together by the overriding need to promote the war effort. Many industrialists became temporary —often unpaid—civil servants. When the war ended these 'temporaries' were naturally anxious to return to their businesses. Moreover, their private interests were increasingly likely to come into conflict with the requirements of government departments. The failure to think out a strategy of controls meant that the post-

[1] Paper 6 appended to *The Placing and Management of Building Contracts*. Report of the Central Council for Works and Buildings. H.M.S.O., 1944.

war decontrol was more like the crumbling of fixed defences under continuous attack, than the flexible adaptation of forces to meet new circumstances. Of course, adaptations were improvised: but some, at least, of the improvisations only created new problems in other fields.

Probably the most important single control in the later stages of the war was that on manpower. Other controls, such as materials allocation, were made to tie in with the labour available. The controls on manpower were dropped as quickly as possible after the war (cf. Chapter XI). Nevertheless, raw material and other controls were not abandoned at once, and in one sense the abandonment of labour control put a relatively greater burden on those controls which were retained.

Roughly speaking, the policy followed in the years after the war was to retain each existing control until the particular need for it had gone. For the 'allocation' or 'rationing' controls, this was taken to mean when supply had increased sufficiently to meet current demands. It is not always appreciated that this criterion is insufficient, for it leaves out of account the question of price. Supply and demand, for any particular commodity,[1] can always be equated by allowing the price to rise sufficiently. So far as one can judge (though food is clearly a notable exception) the Government's policy was first to remove various subsidies, e.g. the wool and cotton subsidies or the steel subsidies, so that prices more nearly reflected normal costs and profits, and then to 'decontrol' when, at 'reasonable' or 'normal' prices, sufficient supplies were forthcoming to meet the demand. The outstanding exception to this policy was food, where retail prices were kept down by subsidies, although at no time since 1945 have the supplies of certain items, e.g. meat, been sufficient to satisfy, not merely the demand at subsidized prices, but the demand at prices which would cover costs. Rationing was retained in these cases throughout the period.

The reductions in armament production which swiftly followed the end of the war in Europe at once reduced the demand for most non-ferrous metals except tin. The mechanism of control was retained for statistical purposes, but, by September 1945, licences

[1] But not necessarily for all commodities at the same time. A general inflation could set in which would not end in a new equilibrium position, but would either lead to a complete collapse of the currency, or be followed without a break by an equally violent deflation.

were freely available for all purposes for most grades of aluminium and other non-ferrous metals. Wool also appeared as a surplus material at this time, and became more easily obtainable. In an article published in September 1945, *The Economist* listed the materials which were still scarce and likely to remain so for some considerable time to come. Timber was listed as number one shortage. This was a shrewd prediction: softwood remained scarce and subject to allocation throughout the period 1945–50: most hardwoods, however, were freed from allocation in April 1949. Wood-pulp and paper, leather, tin, lead, jute,[1] hemp, and sisal were on the scarcity list. All the above were primarily imported materials. To them should be added steel and cotton.

The story after 1945 is largely one of a *trend* of relaxation, upon which were superimposed fluctuations of alternate tightening and slackening, following the fluctuating fortunes of the fuel situation and the balance of payments. There was also a tendency to over-issue licences in good periods—a kind of inflation of licences—followed by periods of austerity in which allocations were cut down or given only after more careful scrutiny. For example, for the first two allocation periods of 1947, no allocations of cotton yarn for export production were given at all, in order to ensure that the domestic ration would be met. The supply position eased substantially, later, and cotton allocations were abandoned altogether in 1949. In May 1950 the control of distribution of steel was dropped altogether except for sheet steel and tinplate.

Except for these steel items, timber, and one or two minor materials, by the year 1950 the economy was almost free of raw material allocation systems. Only building licences remained as a major physical control which impinged with perceptible sharpness. The freedom was short-lived: from early 1951 onwards non-ferrous metals, sulphuric acid, and other materials, one by one, joined a growing list for which licences were needed. Full rationing of steel was reintroduced in February 1952.

The end of the war brought some reduction in the demand for engineering products and, in the months immediately following, various relaxations of control were made for internal combustion engines and electrical equipment. The extremely rigid restrictions on containers and packaging were also relaxed. Various relaxations,

[1] For jute, the shortage was not lack of raw jute supplies but of labour in Dundee.

now here, now there, followed in the field of production controls. The story, given later in this chapter, of utility production must suffice as an illustration of the kind of problems which had to be dealt with. In February 1948 the President of the Board of Trade appointed an Examiner of Controls, whose duty was to survey the whole field and to make recommendations for simplification or removal. Choosing early November of that year as an appropriate date, the President of the Board of Trade, Mr. Harold Wilson, announced a 'bonfire of controls'.

Between February and November 1948 the controls affecting some sixty commodities had been relaxed or abandoned. Statutory control of manufacture had been abolished altogether for some twenty-five categories of articles, including mechanical lighters, perambulators, toys, cutlery, fountain pens, linoleum, and miscellaneous textiles.[1] Large though this list was, saving, it was estimated, some 200,000 licences a year, it still was officially stated to deal with a relatively small part of the control mechanism. The effects on the home market, however, were not imperceptible. A greater variety of goods could now be purchased: moreover, in a number of instances, the requirement that a definite percentage of output must be exported was dropped. Official policy was to rely increasingly on informal arrangements with trade associations to secure sufficient exports to reach the *Economic Survey* targets.

Mr. Wilson's 'bonfire' was not the end of the relaxation of production controls. In his statement to the House of Commons at that time, he said: 'Apart from those basic controls which are essential for our economic recovery, for industrial efficiency or for full employment, it is our policy to maintain all those controls—and only those controls—which are essential to secure a proper distribution of materials which are still scarce.' The process of relaxation, in the field of 'utility' control, continued after 1948. By 1951, except for furniture and some textiles, there was very little effective statutory control over the methods of manufacture of consumer goods (other than food). Over the period 1945–50 there had also been substantial relaxation in food manufacture.

Consumer rationing of certain principal foodstuffs—meat and

[1] The announcement also listed nearly twenty materials for which either allocation had been ended and/or private trade restored. For a dozen groups of manufactured goods, export licensing and control of distribution had been relaxed.

bacon, fats, eggs, cheese, and tea—was still in force at the end of the period. There were, from time to time, changes in the size of the ration according to the fluctuations of supply. The two features of major interest in this period were the introduction of bread rationing in July 1946,[1] and the shortlived experiment of derationing sweets and chocolates in 1949.

The former was the subject of considerable political controversy. Much of the hostility was based on the simple argument: if it had not been necessary during the war, what possible justification could there be when the war was over. This argument was too simple, for it neglected the fact that, with the end of the war, shipping could be released to carry grain to areas, notably in Asia, which had already been famine-stricken when the war was on. But there were very strong arguments for derationing again as soon as possible. It was an essential and successful feature of the war-time food rationing that a 'free' supply of bread should be available to fill the corners left by reduced meat and other rations. Bread became freely available again in July 1948, and remained so until the end of our period.

The experiment with sweets and chocolates served the useful purpose of illustrating the pitfalls of economic prediction. Both the trade and the Ministry of Food attempted to estimate the likely 'free' demand, at current prices. They took the view that by April 1949 this was no longer in excess of current supplies and that rationing could safely be removed. Events proved them substantially wrong. Sweets and chocolates disappeared under the counter with dramatic suddenness and remained there. The theory that there was a rush of buying to gorge sweet-starved consumers wore thin as weeks passed and no slackening of demand was apparent. The experiment was abandoned in August of the same year.

Petrol rationing was retained until 1950, when its removal followed a new agreement between the Government and the principal oil companies about the allocation of earnings and dollars. Criticism of the rationing system was fairly continuous throughout the period on the grounds that it was administratively expensive and that there was widespread evasion. A committee, under the chairmanship of Mr. Russell Vick, was appointed by the Minister of Fuel and Power in January 1948, 'to enquire into and report upon the extent to which and the methods by which persons obtain

[1] Potatoes also were rationed in the winter of 1947–8.

petrol otherwise than in exchange for coupons issued to them by the proper authority, and to suggest suitable remedies of any abuses which come to light'. The Committee, reporting two months later, estimated that 'black market' petrol consumption in 1947 may have amounted to some 47 million gallons, representing 3 per cent. of total petrol consumed in 1947 by all users, and 10 per cent. of the consumption in that year of motor-cars. The assumption underlying this estimate was that the black market arose from the use of a surplus of coupons issued above those used for legitimate petrol consumption. The Committee examined carefully the methods of distribution and the techniques for obtaining petrol illegitimately and made various proposals for improving the controls, the most well-known being to dye commercial petrol red, a recommendation subsequently adopted. The Vick Report is particularly interesting since, of all black markets in post-war Britain, that in petrol was the most widely publicized. It would be rash to conclude that it was for this reason the largest. The fact remains that, before the dyeing of petrol, 10 per cent. only of private motorists' supplies was illegitimately acquired, and that after there was general agreement that the worst abuses had been stopped. There seems no reason, therefore, to accept the often expressed and pessimistic doctrine that rationing schemes in peace-time must inevitably be corroded and crumble away before the 'natural forces of demand and supply'.

Supplies of clothing and footwear for civilians had been substantially reduced during the war. After the war, supplies were increased but not at a uniform rate, the position easing more quickly for footwear and woollen goods than for cotton cloths and clothing. To begin with, changes in the supply position were dealt with by variations in coupon rates, and by taking particular classes of items off the ration. The process of derationing was completed by 1949. During the war clothes rationing had become closely interlocked with the allocation of raw materials and the 'utility' control of production. The smoothness with which the scheme worked very much depended on the power of the Government to regulate *both* demand and supply and thus to keep them in reasonable balance. By matching coupons received by retailers with cloth and, ultimately, yarn delivered to makers-up and manufacturers, it was also possible to keep a potential black market down to very small proportions. Once the allocations of materials were removed,

which occurred for textiles in 1949, it would in any case have been difficult, if not impossible, to maintain a workable scheme of clothes rationing.

For furniture there had never been a system of general rationing whereby each consumer was given a permit to buy some minimum quantity. Supplies of 'utility' furniture were restricted, from the inauguration of the scheme in the war, to certain classes of persons, such as bombed-out families and newly married couples setting up house for the first time. No attempt was ever made to control the sales (as distinct from the prices) of second-hand furniture. In 1948, utility furniture, which constituted by far the greater part of total output, was made available without dockets.

Our concern in this chapter is primarily with statutory controls and allocation schemes. As a sidelight on the wider question of the alternative of using prices or quantitative allocations, as a means of distributing scarce commodities, it is perhaps worth mentioning that throughout the period quite a number of retailers operated private rationing schemes of their own for scarce commodities which were not covered by any statutory scheme or were relatively scarce even though they were officially rationed,[1] e.g. tinned foods at certain times, tobacco, and so on. These *ad hoc* arrangements extended beyond the retail trade: wholesalers and manufacturers frequently tried to share out scarce supplies to their regular customers. Even more important than these private consumer rationing schemes were the complex arrangements negotiated voluntarily between the Government and various industries about export targets. In some cases, no doubt, threat of curtailment of raw material supplies was only thinly veiled, but that was by no means true in many instances. Whatever may be said against such arrangements in the long term, there is no doubt that their existence frequently eased the task of removing the statutory allocation and rationing systems.

Somewhat paradoxically, 1948, a year of relaxation of production and allocation controls, was also the year in which an attempt was made to tighten up price control. Prices of consumer goods other than food were controlled under two Acts of Parliament, the Prices of Goods Act 1939, and the Goods and Services (Price Control) Act of 1941 under which the 'utility' controls of distributors'

[1] This happened when the particular item was 'on points', i.e. one of a group of commodities which could be obtained with the same coupon.

margins,[1] in particular, were operated.[2] The former was never very effective for direct price control; but it did give rise to various informal arrangements for price control of branded goods between the Central Price Regulation Committee and manufacturers. The various orders under the 1941 Act constituted the main body of effective price control. The practice had grown up of negotiation between manufacturers and traders and the Board of Trade for increases in the statutory maxima, based on costs of the respective industries and trades. As a rule, when a good case had been made out that costs had risen, from whatever source, the maxima were adjusted upwards.

The policy of the Personal Incomes White Paper, as embodied in the various Price Control Orders of March 1948, represented a departure in principle from this procedure. First of all, for goods which were being sold in the so-called 1948 period, i.e. the two months ending 31 January 1948, an overriding maximum price was set, equal to the lowest price at which any particular good was being sold by a manufacturer, wholesaler, or retailer in the 1948 period. This covered a wide range of goods not previously subject to effective control. The effect of this price freeze was that modest rises in costs would have to be absorbed by reduced net profits or offset by economies and rationalization. There were bound, however, to be individual cases where the cost increases would call for exemption from the general freeze. Here a new principle was introduced for cases where, hitherto, the maximum price had been fixed on 'basic costs' plus an agreed margin, in which 'basic costs' were agreed after negotiation between the Board of Trade and the manufacturers concerned. It was stated that changes in the rates of wages, salaries, and commissions and in the conditions of employment which occurred after 4 February 1948, would not be taken into account in calculating basic costs unless the Board of Trade agreed that these increases were justified by the principles laid down in the Personal Incomes White Paper.

The price freeze of March 1948 did undoubtedly slow down the rate of retail price increases during the next twelve months. But in company with the parallel policy of restraint in granting wage increases, a thaw gradually set in, and, after devaluation in September 1949, it became apparent that the policy in its original form

[1] Manufacturers' prices were controlled under the Defence Regulations and after the war under the Supplies and Services Acts. [2] See Chapter VII, pp. 144–5.

could no longer be effective. The Government was partially responsible for this failure, for the policy of closer price control was not consistent with the relaxation of other controls. Furthermore, the psychological force of the 'freeze' was diminished by making certain exemptions immediately. These concerned paper and leather goods. In these two fields raw materials had been subsidized, and it was just at the beginning of 1948 that it was decided to remove from various industrial materials the subsidies which had appeared by accident or design over a wide range of materials during and since the war. Whatever the merits of a general realignment of raw material prices,[1] it would have been wiser to postpone these particular adjustments so as to obtain the maximum psychological effect of the freeze. Not that a general price stop could in itself have lasted for any great length of time, even if devaluation had not occurred in 1949. For there are bound to be continual changes in relative costs in different industries. Thus a much more detailed policy would be needed to decide which of these changes should be reflected in retail prices, which curbed by specific price controls, and which offset by subsidies. This would have meant reconsidering the decision to fix the absolute amount of the food subsidies which was taken at this time.[2] Although the Personal Incomes White Paper achieved the result of markedly slowing down the rise in prices for the next twelve months, there was no effective policy to follow it up.

Once devaluation had occurred, however, the case for attempting to stop prices rising altogether became much weaker. In order to make sure that the speculation against sterling was killed, the extent of devaluation in 1949 was a good deal greater than was required by price and cost considerations alone. Consequently, it was clear that the terms of trade would move more adversely than was needed in order to improve the balance of trade. A moderate upward move of wages and prices in Britain after devaluation would tend to restore the terms of trade, without offering any threat to the balance. In retrospect, therefore, the fact that the 1948 effort appears more as a brake than a stop becomes almost a point in its favour, though once again the question how to stop prices rising when the external situation should require it was left open.

[1] See below, p. 295.

[2] In the event food subsidies were allowed to run up, after all, throughout 1948 and the long announced 'ceiling' was only fixed in the 1949 budget.

The supply of materials

Following the practice adopted for the first time in the First World War, the Government became in the Second World War the sole purchaser of nearly all the principal raw materials. The various Controls were the Government's agents in most cases. After the First World War government purchase was dropped and the business was very quickly back in private hands. After the Second, however, the tendency of policy was to retain government purchase unless a good case could be made that the return to private trade was desirable. This was not solely a matter of difference in doctrine between the post-1918 and post-1945 governments, though it is important that the Labour Ministers did not accept the principle that private trade is always best, except in special circumstances, and that special circumstances can never last very long.

Central purchase obviously has strictly military advantages, e.g. pre-empting of supplies from the enemy, which were no longer relevant after the war. Apart from these, however, it was clear that the early establishment of long-term contracts, e.g. for the entire exportable surplus of wool produced in the Dominions (the bulk of world exports), had played a notable part in keeping price increases throughout 1939–45 much less than in 1914–18. The likely continuance over many years of food and other rationing at home also pointed to the retention of central purchase as carrying with it the most effective control of distribution of supplies within the country.

Consequently, throughout the post-war period the Ministry of Food continued to be the sole purchaser of all the principal foodstuffs. Where, however, the relaxing of import restrictions increased the flow of less essential, or luxury, foods the policy was to allow private trade to take up the business. In the case of industrial materials there was, perhaps, rather greater relaxation. By successive stages, for example, in wool, the business of importing was gradually transferred to private traders; the first wool auctions in London since 1939 were opened in September 1946.[1]

[1] A joint organization representing Britain and the principal Commonwealth wool growing countries took over the management of the great stock of raw wool, about two years' supply, which had accumulated in the war. The stock was cleared by 1950.

In steel the return to private trade was nominal only. Before the war the British Iron and Steel Corporation, an offshoot of the Iron and Steel Federation, had virtually a monopoly of imports into this country. During the war the same body was used for this purpose as a government agent, and its import policy continued to remain under government supervision after the war.

Cotton buying is highly specialized because of the wide variety of grades and lengths of the raw fibres. When war broke out the attempt had been made to allow the Liverpool cotton merchants, and the famous Exchange, to continue in business, subject to various regulations. Increasing shortages of shipping and exchange, however, proved too much and central buying was instituted in April 1941. At the end of the war the Cotton Control was responsible for buying all cotton brought into this country. Towards the end of 1945 the Liverpool Cotton Association urged the Government to decide, in principle, whether the war-time system was to be abandoned as soon as possible. In March 1946 Sir Stafford Cripps announced that the Government had decided to establish a permanent Raw Cotton Commission to manage the purchase of all raw cotton coming into this country. This Commission was subsequently established by Act of Parliament and its members, some full-time, some part-time, were drawn from the Cotton Control, cotton spinners, the trade unions, cotton merchants and the Cotton Board.

In the 1948 'bonfire of controls' the purchase of a number of minor raw materials was returned to private traders. Rubber and wool[1] had gone back to private trade before this. In 1949 cotton linters, hemp, silk, flax, and straw, and in 1950 hides and skins, esparto, pulpwood, wood-pulp, and hardwood were returned to private trade. Even at the end of 1950, however, the Government (including under this head the British Iron and Steel Corporation and the Raw Cotton Commission) remained an important buyer of materials, especially certain metals. The scale of these operations is shown in Table 1 of Chapter XXV.

Government buying must not be confused with bulk purchase. Both government and private importers sometimes place long contracts for part, or whole, of the output of a firm or an industry.

[1] The war-time arrangement for the compulsory purchase of all home-produced wool, at fixed prices, was continued. Home growers therefore did not benefit from the great wool price boom of 1950–1.

Equally public agencies as well as private enterprise may buy their materials in the open market without any special arrangements. The merits of long-term contracts, from the point of view of promoting steady production at low cost, are discussed in Miss Ady's chapter. These longer-term considerations were, no doubt, much in the minds of the Government in deciding whether to retain central purchase in any specific case.[1] But there was a further consideration which certainly played a large part in setting up a permanent cotton buying Commission—the likely persistence of exchange control. Nearly all wool is purchased from the Sterling Area. American cotton, always the major type used by Lancashire, needs dollars. Long-term policy clearly indicated dollar saving, combined with the development of cotton production in countries within, or closely connected with, the Sterling Area. Had the Liverpool Cotton Exchange mechanism been restarted, it would have been necessary to devise a scheme for issuing limited quantities of dollars to importers. But any scheme which was tight enough to avoid any risk of exchange losses would almost certainly have prevented the complex system of the Exchange from functioning satisfactorily. Competition does not make for efficiency unless firms are free to contract or to expand their business. It was altogether easier for a central agency to keep within the requirements of the foreign exchange position. The Raw Cotton Commission does in fact make long-term contracts, e.g. with Sudan,[2] to assist the development of non-dollar supplies. The American cotton, however, it buys in the open market, without any special agreements with producers.

There seems little doubt that, over the period 1945–50, Britain obtained its food and raw materials more cheaply through these central purchase arrangements than other countries in Europe. To some extent the mere fact that Britain was taking a substantial supply at fixed, or slowly rising, prices pushed up the price of marginal supplies sold in a free market. If *all* supplies had been sold in a free market, the price might well have been lower than the actual free-market prices of 1945–50, though still higher than the prices actually paid by Britain. There is also fairly general agreement that the buyer gains from long-term contracts in rising

[1] In general long term contracts were restricted to food: most raw material purchases were short term.

[2] Incidentally the *guarantee* of a market over a long period was a major factor contributing to the success of the Gezira scheme, in which this country has an interest far wider than purely commercial.

markets—and it so happens that material markets were more often rising than falling in the years 1945 to 1950.

The fact that prices have been kept lower than they would otherwise be has not exempted these arrangements from criticism, which has been directed at the alleged inability of a small central staff to pay sufficient attention to the particular needs of the material users. Thus, the timber trade argued that a staff of not more than six buyers, whatever their personal ability and however accurate their sources of information, could not cater for the varied needs of merchants and consumers as satisfactorily as private buyers, each acting on behalf of a known consumer. It was also argued that the Timber Control's preoccupation with price led to late, and therefore unsatisfactory, buying.

These and other criticisms were carefully examined by the Select Committee on Estimates in 1950.[1] The Controller himself gave the Committee as his personal opinion that '(without committing my President) when we have completed this year's buying it would be better if the buying reverted to the private trader . . . although temporarily I think it will cost the country more'. The Committee itself did not make any recommendation on this point, but it did make a number of recommendations affecting the method of distributing timber within the country. In fact, softwood buying was handed back to private traders in 1951, but it is too early to judge the results.

From 1941 onwards Controls had tended to peg the 'issue' price of their materials to home consumers irrespective of the price they themselves were paying to overseas suppliers. The logic of this policy was simple and sensible. After Lend-Lease had started British exports were rationed in the same way as goods for home consumers. There was no need to worry very much whether the costs of British manufactures were too high or too low in foreign markets. Consequently, issue prices of raw materials could be determined almost entirely by domestic considerations. Stable raw material prices would be one device for reducing cost inflation. Where the Government was buying, in the form of armaments, most of the goods embodying a particular material, it became a pure matter of book-keeping what price was put on the material itself. But there was always some amount of materials entering civilian trade. If material prices were raised, the general tendency

[1] Seventh Report from the Select Committee on Estimates, Session 1950.

would be for costs of manufactured goods to go up, not merely by the absolute increase in the cost of materials embodied, but by rather more, in accordance with the widespread industrial practice of adding to prime costs a somewhat inflexible percentage margin for overheads and profits. In any case, a rise in a major item like steel would simply go round the economy, to very little purpose. The consequence of this raw material price stabilization was that by the end of the war many materials were being subsidized, the particular mechanism of the subsidy being that trading losses of Controls were carried by the Exchequer.

The broad policy since the war has been to eliminate the subsidy element in the issue price of raw materials. One by one the subsidies to wool, cotton, leather, and other raw materials were removed. The most spectacular instance occurred on 1 April 1949 when steel prices were raised by nearly 10 per cent. (a small increase of about 3 per cent. had already occurred in October 1947). Table 1 shows the amounts of the steel subsidies in the post-war years.

TABLE 1

Exchequer Subsidies to Steel Prices (£ million)

	1946–7	*1947–8*	*1948–9*
Total	9·6	11·1	18·8
of which to imported ore . . .	6·8	7·0	6·0

It was estimated at the time[1] that the effect of the price increase would be to shift about £25 million off the Exchequer on to the steel user and ultimately to the consumer of steel products. Since 1949, broadly speaking, the policy has been to make total receipts cover total costs of iron and steel. The system whereby the buyer pays the same price, e.g. for ore, whether it is imported or home produced, was, however, kept in being, a levy on all steel prices being used to finance the extra cost of the more expensive imported items.

There is clearly much to be said for this policy of a general realignment of issue prices so that they reflected more nearly current costs of obtaining materials, although, as was pointed out earlier, the timing of some of these readjustments to coincide with the 1948 price freeze was unfortunate.

[1] *The Economist*, 2 Apr. 1949, p. 618.

The Controls, as a rule, did not go so far as to make issue prices dependent on day to day fluctuations in 'world' markets. In base metals, for example, price adjustments were made as a rule in steps, with several months' interval. On a rising market this meant a slight, but steady, advantage to the British user. When, in 1948, base metal prices in world markets began to fall, there were complaints that the British manufacturer was penalized with respect to his foreign competitors. The downward adjustments of issue prices were, in fact, made much more frequently. The period was, however, too short to justify any conclusion about the adverse effects of the policy of adjusting prices at intervals, and not from day to day.

The question was, perhaps, most acute in the cotton industry, partly because in yarns, and perhaps in woven fabrics, raw material costs bulk larger in the price of the manufactured article than elsewhere, but also because before the war the existence of the forward market had provided a very good hedge against losses on stock for manufacturers. The Raw Cotton Commission has provided a hedge against changes in its own issue prices, which are based on what is called 'world replacement costs'. It seems that these arrangements are broadly effective for spinners, if not as subtle as the 'futures' market of the original Exchange; they do not extend to weavers and merchants.

Allocations and quotas

For the major materials, e.g. steel and timber, consumers were grouped under a number of sponsoring 'Departments' and the Raw Materials Committee allotted global supplies for each 'period' to the Departments. The Departments in turn could then issue licences up to their global supplies. This system, developed during the war, was carried into the post-war years. It is superior to any system of priority certificates, and also to the looser system of requiring licences to be obtained only by a broad category of less essential consumers. These last two methods, in fact, are only useful when the shortage of material is not great, and is expected to be temporary.

There is room, however, for dispute about the details of the allocation system. For example, the original scheme for steel distribution, which, incidentally, was followed when steel rationing was reintroduced in 1952, gave steel allocations to principal users, who

were allowed to sub-allocate (within their total allotment) to sub-contractors working for them. It has been argued that this arrangement gives an unfair advantage to large firms who can abuse their privilege of disposing of raw material licences to influence the terms on which sub-contracts are placed. An alternative—horizontal—system of allocation has been suggested whereby *all* users of steel, however small, would obtain an allocation. This alternative would, however, have one disadvantage which is already encountered in many trades and industries as a result of allocation and which may have serious adverse effects on efficiency.

The problem appeared first in the less essential trades, serving the civilian market, during the war. The supplies of cotton, say, for a particular textile trade had to be halved. How was this supply to be distributed among individual firms? The first move was always to give *each* manufacturer the same percentage (in this example, 50 per cent.) of his supplies in some standard period. The consequences were that: (i) every firm was made to run below capacity, and (ii) the competitive processes of expansion and contraction, entry and exit of firms, were stopped altogether. During the war 'concentration' schemes of various types were developed to overcome these disadvantages. But the Government promised, when introducing these schemes, that, when the war came to an end, they would be abandoned. In all the trades affected a process of deconcentration was begun soon after the war. This meant that every trader who had consumed materials before the war had a kind of right to a share of the limited raw material available. New businesses could not start up since they had no raw material 'quota' or allocation.

An exactly analogous situation arose in the trades distributing the materials on behalf of the Controls. Take, for example, the Post-War Reconstruction Scheme for Imported Soft-wood.[1] Merchants (including former importers) were divided into two categories of first-hand and second-hand buyers, first-hand buyers being firms whose war-time quota (based on their stock and turnover figures for the years 1936–8 inclusive) was over a certain size. All such merchants, and only such, were permitted to buy direct from the Control. The second-hand buyers obtained supplies at a discount from the first-hand buyers, who were allowed to buy

[1] The account which follows is taken from the Report of the Select Committee on Estimates, op. cit.

further stock from the Control to replace the timber thus sold. There was provision for buyers of either category to appeal for a change of status at the end of the first six months of the scheme, but thereafter no change was allowed. In 1950 there were 380 first-hand and 1,114 second-hand buyers. It appears that there had been some new entrants.

The detailed allocation of timber to first-hand buyers was performed by National Softwood Brokers Ltd., a company consisting of eighty-nine firms of timber agents, almost the whole of the agency trade of the country. These were the private agents who used to buy timber abroad before that task was taken over by the Control itself. Buyers at first-hand had to accept, in fulfilment of their quota, timber 'of an average specification, having regard to what is available'. Thus the first-hand buyers were limited in their choice to what was offered by National Softwood Brokers Ltd. It was not always possible for the latter to ensure that the right kind of timber was shipped to the right part of the country. On one occasion in 1950 it was necessary to send 6,000 standards of timber overland from London, where they had been delivered to quota holders, to Scotland, where they were required for use. Occasional anomalies of this kind are always possible where bulk buying, by any agency, is undertaken, but it was argued by the critics that they were accentuated by the excessive rigidity of the quota system.

A more fundamental objection to the 'quota' system, both in the trades distributing materials and in the industries using them, is that, whenever the supplies of materials are reduced substantially below normal, excess capacity is created throughout the trade or industry concerned. Prices, of the material itself and of the products containing it, have to be high enough to cover the cost of this excess capacity: such prices are easily obtained where sellers' markets are universal. No doubt the extreme rigidities of unchanging 'standards', on which the quotas are based, can be avoided. In the retail food trades dealing in rationed goods, some expansion and contraction is now possible since customers may change the shop with which they are registered, but registration still acts as a brake. No doubt also arrangements can be made, as they appear to have been in timber distribution, for entry of new firms. But the arrangements begin to look absurd when more money is paid by the Ministry of Food to butchers when the meat ration is reduced. In some cases the standards are still based on pre-war trading figures. In others,

changes have been made to make some allowance for the different post-war conditions. But there is no escaping the fact that these 'quotas' blunted what edge there was in competition as a means to promote efficiency. This is a disadvantage which we must take into account in considering the place of controls in the economy.

In reviewing the allocation controls since the war it may appear that the Government has been faced with the choice of two evils. It is easy to be wise after the event, but one cannot avoid the conclusion that in *some* cases, at any rate, the choice could have been evaded if the Government had looked ahead for a longer period. If it was not clear in 1945, it surely was after the convertibility crisis of 1947, that imports would have to remain below pre-war levels. It was also clear that, for a very long time ahead, certain materials and foods, e.g. timber and meat, would be available only in quantities substantially below pre-war. In such cases the virtual permanence of the control should have been accepted as the axiom of policy, and special steps taken to 'rationalize' the trades concerned accordingly.

Utility production and price control

The range and variety of controls dealt with in this chapter is very wide, and it has not been possible to do more than to give a rough sketch of the main changes after 1945, and to pick out a few of the interesting problems raised by the use of direct controls. As a complement to the broad, not to say blurred, outlines of the picture already painted, it seemed worth while following up in greater detail the story of a particular control—utility production.[1]

The utility schemes were introduced under the pressure of war. As supplies of raw materials and labour decreased, manufacturers tended to concentrate their production on higher quality goods

[1] The account here follows very closely, often verbatim, the Report of the (Douglas) Committee on Purchase Tax and Utility Goods (H.M.S.O. Feb. 1952. Cmd. 8452), of which I was a member. In one or two cases I have added points of my own not to be found in the Report. It seemed pointless to try to rewrite the whole story in my own words, the more so that in many cases the wording of the Report was very carefully considered. Equally it would be tedious to the reader of this book to use elaborate apparatus of quotation marks, &c. to indicate which words, sentences and paragraphs are to be found in the Report.

The authors of government reports are anonymous. I should like to make acknowledgement to the other members of the Committee, and especially to the two secretaries. The avoidance of quotation marks has the merit of emphasizing that they are in no way responsible for any of the opinions expressed here, for which I take full responsibility.

which showed a greater profit in relation to materials and labour employed. This tendency was reinforced by the introduction of consumer rationing in which the coupon value of an article was based on its type and not on its money value. In June 1941 the Government introduced an Essential Clothing Programme, which aimed to relieve the immediate shortages of children's and working-class clothing. Before it had become effective, however, it was superseded by the second longer-term policy for utility clothing introduced in September 1941.

The utility clothing programme was introduced to ensure that production of low and medium grade clothing for sale at reasonable prices reached the highest possible level consistent with the restrictions on raw materials, productive capacity, and labour which were made necessary by the war. At first, the main inducement to manufacturers was to allow utility clothing bigger quotas under the Limitation of Supplies Orders (which restricted the quantities of clothing which could be supplied to the home market by registered wholesalers and makers up to a percentage of the supplies in some previous period). When this inducement proved to be inadequate, and the demand for labour for war production became even greater, 'nucleus' or 'concentrated' firms were offered guaranteed allocations of utility cloth and protection for their labour if they would undertake to produce a stated percentage of utility clothing.

Utility clothing had to fulfil three main requirements:

(i) It had to be marked with the utility mark (CC 41).

(ii) The price at which it was sold had to fall within certain defined price limits.

(iii) It had to conform with certain descriptions and had to be made from 'utility cloth'. The first Cloth and Apparel Order specified forty cloths (cotton, rayon, and wool) which could be labelled 'utility' and gave a brief description of them. The cloths were simply those in the low price ranges which were most commonly in production at that time.

The third requirement really arose out of the second, since price control could only be fully effective in the case of clearly defined goods. The descriptions and specifications were thus not prescribed primarily as a means of quality control, but as a necessary adjunct to price control. Definition by specification necessarily implied some element of quality supervision (e.g. as to sizes or materials)

but in drafting the specifications the main object was to make the most economic use of the limited supplies of labour and raw materials available. From August 1942 utility clothing was exempt from purchase tax. The exemption was extended to other utility goods as new schemes were developed.

Other schemes followed the general pattern set by the clothing scheme. Discussions with the footwear industry began in 1941, and in 1942 detailed specifications were drawn up in consultation with the trade and the British Standards Institution. As in the clothing scheme, utility footwear had to be marked with the utility mark, and Price Control Orders fixed manufacturers' maximum prices, and the gross margins of distributors, as well as overriding maximum prices for each specification. The scheme was closely linked with the grades and prices of leather allocated to manufacturers by the Leather Control, which purchased all hides and leather on government account. It did not, therefore, make provision for any classes of rubber footwear such as plimsolls or Wellington boots.

Control over the production of domestic furniture was more complete than in clothing or footwear. The dominant theme was the utmost economy in the use of timber. From 1943 until 1946, the entire output of furniture for civilian use consisted of utility designs produced by the Directorate of Furniture Production of the Board of Trade, and the specifications fixed not only minimum standards of construction, but also the design of the furniture.

Utility schemes were also introduced during the war for hosiery and knitwear, bedding, household textiles, gloves, braces, furnishing fabrics, and fur garments; and after the war for linen, apparel cloths, lace curtain net, and blankets. During the war the utility schemes, for the most part, laid down precise manufacturing specifications. The range of specifications was often restricted to a narrow, 'austerity', selection of possible ways of making an article. At the same time the Board of Trade showed great imagination in employing first-class furniture designers to draw up specifications.[1] In utility furniture the very shortage of timber was sometimes turned to great advantage from the point of view of taste.

With the return of peace-time conditions, and as the need for

[1] During the war a number of famous dress designers displayed clothing which could be sold as utility. This was, however, part of a propaganda campaign. There were never specifications of style in utility clothing, as there were in furniture.

extreme economy of resources passed, the Board of Trade came under very great pressure from manufacturers and consumers alike for ever wider ranges of goods to be introduced into the utility schemes.[1] Since the granting of utility status in practice involved preferential taxation treatment of the goods (the only exception to this being fully fashioned stockings), and since the schemes could be shown to discriminate unfairly as between one section of an industry and another, as between one manufacturer and another, and as between goods in the same range produced by the same manufacturer, the pressure for extensions to the utility schemes was very difficult to resist. The subjection to purchase tax (by exclusion from the utility range) of closely competing substitutes, which provided assurances of satisfactory quality and reasonable cost not inferior to those given by the existing specifications, could not be justified. Equally there was strong pressure, often based on the argument that a flourishing export trade required an assured home market basis, to extend the schemes to more expensive goods.

At first, the schemes were widened by introducing into the specification and price schedules more and more variants. In some of the schemes, the process continued until at the end of 1951 there were, for example, well over 1,000 specifications for non-wool cloth, 539 specifications for boys' knickers, and 781 specifications for men's shirts. Even extensions of this magnitude were quite unable to keep pace with the huge list of hard cases and anomalies to which the arrangements gave rise, and so the Board of Trade were obliged to give individual manufacturers special permission to apply the utility mark to goods which were not included in the general Orders. Another practice was to permit individual manufacturers to make a utility garment from cloths not included among those specified in the Order as being appropriate for that particular garment. Many hundreds of these special licences were issued.

In 1948 the Board of Trade ended the requirement that utility furniture should be made to standard designs. Another major step in increasing the range of the utility schemes, which is of much greater significance, was also taken in 1948, when specifications for footwear were discarded altogether (except for infants' and children's shoes and certain heavy footwear) and replaced by broad descriptions of the different types of footwear, together with a

[1] It is not possible to say how far this was a demand from consumers for greater variety and how much a desire to widen the range of tax-free goods.

grading symbol which depended on the manufacturer's basic costs. For example, in men's shoes, if the manufacturer's basic costs were 32*s.* 6*d.* he might mark them Grade I; if they were 22*s.* 6*d.* he might mark them Grade II; if they were less than 22*s.* 6*d.* he might mark them Grade III, for which no minimum cost was laid down. A similar discarding of the old specifications and their replacement by broad general descriptions (e.g. 'vest (athletic), not less than 30 per cent. wool with other fibres') was carried out for hosiery and knitwear in October 1950. And 1951 saw the introduction of the so-called flexible specifications for cotton cloths and cloths made from continuous filament rayon: these flexible specifications allowed a very great variety of construction within the maximum prices laid down. The thousand and more rigid specifications referred to above (except those for continuous filament rayon cloths) still remained side by side with the flexible specifications.

As the range of the schemes was extended in this way, so the significance of quality, or of value for money, diminished. When the specifications were more detailed, there was less room for variation in the quality of a particular article; similarly, the price control could be more closely related to the manufacturer's costs. By 1951, in many, if not most, of the schemes, the only effective guarantee of quality or value for money was provided by the competition between one manufacturer and another which took place below the utility ceiling prices.

So long as raw material allocations were retained it was possible for the Board of Trade to fix the proportion of total output which should be produced according to utility specifications. When allocations were removed it was left to manufacturers to decide how much to produce.

The inducements to produce utility rather than non-utility were the public demand and the exemption from purchase tax of goods bearing the utility mark: the latter was clearly a most potent factor. Utility goods, in different degrees, and varying between goods, had certain disadvantages from the manufacturer's point of view. He had to keep to certain specifications, and was subject to price control. As we shall see, this restriction or burden imposed on the producer was sometimes non-existent: but in certain cases the shoe might pinch quite hard. The resultant of these and other forces was that, in the period April–June 1951, the proportion of

utility production to total home supplies varied substantially as between different classes of goods (Table 2).

TABLE 2

Proportion of Utility Production to Total Home Supplies in April–June 1951

Non-wool furnishing fabrics	50
Cotton and linen apparel cloth	54
Pillowcases	77
Sheets	83
Wool cloth	87
Furniture	over 90
Footwear (non-rubber)	98

By 1951 only in furniture, and certain fields of non-wool cloth production, did the control of specifications have any bite. In the former, certainly, they continued to be an effective safeguard against the production of shoddy furniture of the type which was prevalent at the poorer end of the trade before the war. As for price controls, the limitation of profits of the individual manufacturer (the 'cost-plus' part of the original utility controls) had gone altogether and in most industries the price maxima were for such wide classes of goods that they would only be a limitation on a few, high cost producers, or producers of the top quality of goods in any group. The extreme example was in footwear, already mentioned above, where the utility scheme had become by 1951 solely a means of tax exemption on all shoes costing less than an overriding maximum price. There was no assurance of either quality or price control.[1]

The story of utility since the war raises certain wider questions about price control. The need for statutory control of prices is greatest at times when the demand for consumer goods is very strong, outrunning the possible supplies. It is sometimes argued that price control in this situation is illogical, perpetuating a disequilibrium between demand and supply. But this argument seems to suppose that, if prices were allowed to rise, 'equilibrium' would be restored, and that would be the end of the story. This may well be true for any single commodity, but it is not true for

[1] This is the end of the section in which I have drawn on the Douglas Report, cf. footnote, p. 299.

any general increase in prices. For then the repercussions on wage levels of a rise in living costs cannot be ignored. If, therefore, there is a danger of a wage-price spiral, which, it should be emphasized, can occur even if there is no very great excess demand throughout the economy,[1] there is a prima facie case for price control as a brake on this upward movement.

Sound enough as a general principle in these circumstances, price control is not easily applied universally. Commodities differ widely in the extent of product differentiation within any group. Some things, e.g. raw materials, can be exactly specified without difficulty: with more complicated manufactured products exact specification becomes more and more difficult, and very often, though not always, less and less desirable. Consequently, while universal price control may be desirable, only partial price control can be effective. This was certainly borne out by war-time experience. But if only some things are to be effectively controlled, they are likely to be 'necessities' and there is the danger that, while the policy may prove successful in keeping down the cost of necessities, it may at the same time lead to resources flowing into non-essential but uncontrolled production. This difficulty was met during and for some time after the war by issuing raw material allocations. When these were dropped there was still an inducement to manufacturers to submit to price control in the exemption from purchase tax of utility goods.

This created two new problems. The first was accidental, the fact that the exemption acted as a discrimination against imported goods of similar type, which, since there was no way in which they could claim the utility mark, had to carry purchase tax. The second was that a gap was created in the home market between the top price utility goods and goods (bearing tax) which were much more expensive. There was no market for goods a little bit better in quality than top utility since the extra price had to cover not merely the extra cost, which might be small, but the purchase tax on the

[1] Unless offsetting action is taken, a general rise in the level of money incomes will cause a rise in the rate of interest. With a given structure of tax rates, both direct and indirect, it will also cause an automatic increase in the budget surplus (or reduction of the deficit). Other things being equal both these factors will tend to reduce effective demand (expressed in real terms), reduce employment and so weaken the pressure for higher money wages. The monetary and fiscal effects are both brakes: it does not follow that they are strong enough to halt the process before speculation on even higher prices has taken a grip on the economy.

value of the whole article, which might be considerable. Manufacturers argued that this 'blind spot' discouraged craftsmanship and inventiveness: they also argued that it was inimical to exports since the export markets for a range of goods in the 'blind spot' were alone too narrow. If there were also a home market for these goods, production both for home and export markets might be undertaken. Without a home market, however, the production for export alone would simply not occur.

It was the pressure of these and similar arguments which led both to a widening of the range of goods called utility—the extreme case was footwear—and to the loosening of specifications within each class of good. A process of this kind tends to gather momentum until the whole structure of control is undermined and crumbles away.

It so happened that the effects of this process were masked by the gradual reappearance in most textiles of a buyers' market in 1950 and 1951. But one cannot rule out the possible reappearance of sellers' markets, in view of the extensive rearmament programme now being undertaken.

What lessons, therefore, can be drawn about price control? Clearly the most effective system requires close specification of a limited range of goods. To operate it requires an inducement to the manufacturer to submit to controls not imposed if he is prepared to have a tax imposed on what he makes. The actual experience of utility does not rule out the possibility of a stable scheme, provided the utility ranges are not too wide. The widening of the utility schemes to cover whole classes of goods must have contributed to the pressure to relax specifications. To some extent the proportion of utility production could then be manipulated by the level of purchase tax imposed on the rest. To be absolutely certain of a definite quantity of utility production, however, we would have to return to raw material allocations.

The scope and limitation of direct controls

Less than twenty-five years ago 'management of the economy' still meant the regulation of the volume of credit. Bank Rate policy in particular was thought to be the hard core of monetary management. 'There can be no doubt, in our judgement', said the Macmillan Committee,[1] 'that "bank rate policy" is an absolute

[1] *Report on Finance and Industry*, Cmd. 3897, 1931.

necessity for the sound management of a monetary system, and that it is a most delicate and beautiful instrument for that purpose.' Barely a year later this beautiful instrument was quietly fixed at 2 per cent. and removed to a museum where it remained, apart from a brief and embarrassing public appearance in the autumn of 1939, for the next twenty years. No doubt cheap money played some part in the recovery after 1932. But in Britain and the U.S.A. the high peak of 1937 was still far below full employment as we now understand it: only Nazi Germany came near to full employment in peace-time. Events dealt a heavy blow to monetary management as a sufficient instrument of control.

Economic theory, given new life by Lord Keynes, began to swim with the tide of events.[1] What was needed, said Lord Keynes and his followers, was to regulate aggregate demand so that it would absorb all the available resources of labour willing to work. The most direct way of doing this was to influence the flows of expenditure, on investment and consumption, through public finance. Increases or decreases in public expenditure, increases or decreases in taxation, would, according to their incidence, raise or lower total demand. Fiscal policy should supersede monetary policy as the principal means of assuring full employment.

Barely had these ideas been absorbed, and the first practical applications been witnessed, in Scandinavia and in the American New Deal,[2] when the Second World War broke out. In Britain it was quickly found that for controlling the violent and rapid expansion of demand generated by war production and mobilization fiscal weapons were too weak. Only direct controls of the kind

[1] It is fashionable to decry Keynesian economics as the economics of depression, and to argue that it contains little of relevance to a world of excess demand and inflation. This view is supported by reference to the large body of practical proposals for full employment written before and during the recent war, and which naturally enough consisted mainly of prescriptions for dealing with demand deficiency. It is a superficial view. For the *General Theory of Employment, Interest and Money* which the author described as 'a long struggle of escape from habitual modes of thought and expression' contained more than a programme for getting out of a slump. It was a general theory, providing a set of concepts which can as well be applied to situations of excess demand as of demand deficiency. The best short analysis of the process of inflation was written by Lord Keynes himself in *How to Pay for the War*, written in 1940 in the purest *General Theory* language.

[2] The deficit spending of the New Deal from 1933 onwards preceded the *General Theory*. This does not, however, prevent us from examining it in Keynesian terms.

we have been considering were strong enough to ensure that adequate supplies of materials and labour reached the war industries, and that the restricted supplies of food and other goods for civilians were so distributed that no one was driven below the level of subsistence.

Once direct controls were extensively applied during the war, it was no longer necessary to achieve by other controls the ends already secured by the direct controls. Since private capital investment was effectively curtailed by building and material licences, it was not necessary to raise interest rates. If consumption was checked by rationing it did not matter that taxation was not so high as to take the whole excess of purchasing power. That the proportion of personal disposable income (after tax) saved at the height of the war had risen from a 'normal' level of the order of 5 per cent. or less to over 20 per cent. was not the result of savings propaganda but largely that the income receivers could not spend more than strictly limited amounts on rationed goods, while other things, notably durable goods such as new motor-cars or refrigerators, were not there to buy.

It was clearly sound to do something to reduce the excess demand by high taxation: but a variation of a few hundred million pounds either way in a budget deficit of over £2,000 millions was not of major significance.

In the last thirty years we have seen that in dealing with demand deficiency, fiscal policy is stronger than monetary policy, and that when excess demand is great, direct controls are stronger than fiscal policy and render orthodox monetary policy otiose. So much is not in dispute. The difference of opinion comes in a situation where there is a choice between the use of fiscal and monetary policy to eliminate excess demand and the continued use of direct controls. As we argued above, this choice has been increasingly a real one since the end of the war.

Let us put the question in the form: 'Does our experience of the last thirty years lead us to believe that it is possible to maintain full employment without the use of direct controls?' A number of economists would give an affirmative answer. They would say that the flow of income and expenditure can be regulated by variations in government spending and taxation so as to keep aggregate demand just sufficient to absorb the output which full employment would yield.

There are four objections to this view.

1. It postulates an accuracy in prediction of the main components of national income which has not yet been achieved. In the annual *Economic Surveys* since 1949 the official estimates of the expected increase in real income fall short, each year, of what was actually achieved. Only in the 1951 *Survey* did the (domestic) facts correspond closely to prediction. That these errors did not lead to open unemployment was mainly because there was all the time some excess demand in the economy.

The force of this objection depends on what level of statistical unemployment is put forward as corresponding to full employment. If an average of 5 per cent. were chosen, the error in prediction might not be such as to cause fluctuations of more than 2 or 3 per cent. either way. But many people would regard any increase in unemployment above 2 per cent. as constituting a lapse from full employment. To keep unemployment below 2 per cent. it may well be that the aggregate of, for example, investment plans should always exceed by a fair margin the capacity to build and that the actual programme should be effected by licensing.

2. It was feared immediately after the war that full employment would so strengthen trade unions that the pressure for increased money wages would outstrip the rise in productivity, causing a persistent 'wage-induced' inflation. A general upward movement of money wages and prices did occur in 1945–50, but it did not prove a major embarrassment, since similar increases occurred in most parts of the world. If, however, prices elsewhere were to stop rising, especially in U.S.A., the problem of a wage-induced inflation might be more serious. (Cf. Chapter XIV).

3. It has been remarked that Lord Keynes is the only great British economist who has not put international trade in the centre of his picture. The models of full employment without direct controls reflect this bias towards the analysis of a closed economy. From the standpoint of theoretical analysis no objection can be made to the abstraction of a closed economy. Moreover the concepts of Keynes's theory can very fruitfully be extended to international problems, as shown, for example, in the U.N. Experts Report on *National and International Measures for Full Employment*. But these are plans for the future. Meanwhile the world in which we live is one of violent and unpredictable change. The re-emergence of Germany and Japan from virtual stagnation to full

status as exporters in world markets occurred in less than two years. Stockpiling in the U.S.A. after the outbreak of the Korean War caused both a violent rise in most raw material prices, and also absolute shortages of many important materials in many countries. Within a year of launching the European 'liberalization' policy the value of British imports from O.E.E.C. countries nearly trebled, while her exports rose by less than one half.

The impact of these changes in imports and exports is intensified by speculation. The self-adjusting international monetary mechanisms which seemed to work so beautifully and simply at the beginning of this century did so precisely because they had been getting better and better throughout the nineteenth century. The trend of British prices after the Napoleonic Wars was slowly downwards. Confidence in the value of sterling steadily grew, and confidence bred confidence. All that has gone. The fundamental weakness of Britain's international position is plain for all to see. Changes in the balance of trade which fifty years ago would have passed unnoticed, are now intensified out of all proportion by speculation.

Even without speculation, the adjustment of trade balances through the medium of the monetary mechanism, of credit inflation and deflation, would be far too slow to cope with the variations of the size actually experienced since 1945. When speculation is added it is clear that quantitative import restrictions are likely to be needed for as long ahead as it is worth considering.

4. It is the violence of external changes which deals the greatest blow to the hopes for full employment without direct controls in Britain. Not merely are quantitative restrictions of imports needed, but with them very frequently go corresponding internal systems of allocation of scarce materials or rationing of foodstuffs. If, however, we are in for a period of bouts of rearmament followed by stabilization similar problems may be generated internally.

For all these reasons it is fairly certain that employment cannot continue to be maintained at the level experienced in 1945 to 1950 without some direct controls, notably import controls, building licensing, and control of certain important materials. In the nature of the case, however, the 'bite' of these controls will continue to vary from year to year.

In the past the impact of external fluctuations was borne by reserves, including the great hidden reserve represented by unconditional confidence in sterling. When adjustments were necessary

they were made through variations in income and employment. If the attempt is to be continued of stabilizing employment at a very high level the adjustments to external changes, and also to major internal changes, such as rearmament, must be made by other means. Moreover, we can no longer rely upon the cushion of reserves and unlimited confidence in sterling to give ample time for adjustments. They need to be made quickly. Consequently, the impact of external fluctuations must be borne by variations in the tightness of control.

If there is a lesson of the years 1945–50 it is that the recurrence of alternate periods of apparent austerity and apparent ease of supply is the price of stability of employment. The mistake has been to treat periods of temporary easement, such as 1950, when a number of factors happened all to be running in our favour, as an indication of a permanent improvement. When controls have been tightened, notably import controls, it has always been done in an atmosphere of panic, as though the 'crisis' was something new and quite unexpected. Even as the screw was being turned our leaders have assured us that this was the last time and that very soon, if we all worked hard enough, we should be free of all these irksome restrictions. When the balance of payments, or the supply of steel, duly improved, instead of merely relaxing control the tendency was to abandon the whole machinery of control. When the next crisis came the machinery had hastily to be pulled out of store and set up again. Economists cannot avoid all share of the blame for this attitude. It is they who make the most use of terms such as 'equilibrium', 'normal', and 'in the long run'. Not merely do they construct beautiful models of smoothly running full-employment systems, free from all direct controls and gently adjusted by turning on or off a few taps of income and expenditure flows, but they show these models to a wider public without explaining that they have not yet undergone any practical tests.

The world in which we live is abnormal, short run, and in a state of fluctuating disequilibrium. It does not allow us the luxury of 'ideal' policies. If Britain were to attempt to regulate the economy exclusively by indirect means, i.e. by monetary and fiscal policy, this would involve substantial average unemployment. No doubt in good years, when external factors were running favourably, employment might rise to high levels. But any major external change would have to be corrected by reducing income and em-

ployment at home. Potential output would have to be sacrificed. Direct controls, as we have seen, are by no means perfect. They require administration and may involve waste. On the other hand, they allow employment and output to be kept at very high levels. The exact point where the waste and costs of direct controls overtake the gains from higher employment cannot be found from any general reasoning. It depends on the economic situation, especially the likely developments in international trade. It also depends on a value judgement involving the intrinsic merits of a high level of employment, the distribution of income, and the intrinsic merits of free enterprise.

CHAPTER XIV

PERSONAL INCOME POLICY

By G. D. N. WORSWICK

BEFORE the Second World War there was little discussion of a national wages policy, or a policy for all personal incomes.[1] In the last ten years, however, the topic has received a good deal of attention. The principal reason for this has been the existence of full, and for part of the time over-full employment, and the general acceptance of the view that the Government ought to continue to take whatever measures are needed to maintain full employment in the future. It has been argued that the traditional methods by which wages and other incomes are settled in Britain are unsuited to full employment conditions. It is feared that they may lead to a persistent inflation of wages and prices, and that they will hinder, rather than help, the achievement of the right distribution of man-power.

The problems created by full employment are without doubt the strongest motives behind the numerous suggestions for a wages policy. But there are two other considerations to which it is worth paying some attention in this book. Firstly, government expenditure in 1945–50 constituted a higher proportion of national income than ever before in peace-time. Consequently taxation has also reached new heights. The gap between gross incomes and incomes net of direct taxation begins to open quite low on the income scale, and widens as incomes increase, until for the highest incomes only 6*d.* is retained of every extra £1 received. This creates problems of tax-evasion, and also of incentives. Secondly, the direct influence of the Government on wage and salary levels is growing, with the extension of public services, e.g. the Health Service, and of nationalized industries, in which the Government is either the direct employer, or, as in the latter instance, cannot escape being involved in the consequences of wage increases.

[1] Strictly speaking we are concerned in this chapter with 'private incomes before deduction of direct taxes', which includes, for example, undistributed profits, which are not personal incomes in the narrower sense of the term. The term 'wages policy' has been widely used, not merely to cover wages but to deal with other types of income, e.g. salaries and profits. We prefer to use the wider, if less familiar expression, 'personal income policy'.

The distribution of incomes

In describing changes in the distribution of incomes we have to overcome both conceptual and statistical difficulties. In any year the greater part of total private income is actually paid out to individual persons. Some part, however, is not paid out, but retained, e.g. undistributed profits. Whether, and to what extent, these undistributed incomes should be imputed to individuals involves thorny, not to say metaphysical, problems, especially at a time when dividends are being 'restrained' in response to official exhortation and threats of compulsion. The concept of income is not unambiguous: for example, depreciation may be treated differently in different years. Not even the 'individual' is sharply defined, since for income-tax purposes (and it is from Inland Revenue that many of the data are obtained) the incomes of husband and wife usually, though not always, constitute one undivided income, while other data used, especially for the lower incomes, attribute one income to one person, married or not. These smaller incomes include those of juveniles and old people, making separate tax returns: these 'persons' are obviously not strictly comparable with married men with family responsibilities. The data themselves are subject to various errors. For those drawn from Inland Revenue there is the possibility that incomes have been declared for tax purposes below their true level. Also, the number and size of the smallest incomes, falling below the tax exemption limits, is extremely uncertain. Quite apart from these practical difficulties, the concepts of more or less equality of income distribution are elusive. Even if the aggregate income in two cases is the same, the lower incomes in one case may be 'more equally' divided, while the higher incomes are 'less equal'. And how does one compare the degree of inequality of distribution in a case where the two aggregates differ substantially? It follows that it is wise not to attempt to draw very exact conclusions from the intricate calculations which have been made.[1]

Mr. Seers[2] has calculated the cumulative frequency distribution of all private incomes, i.e. personal incomes paid out and undistri-

[1] The statistical picture in this section is drawn from D. Seers, *The Levelling of Incomes since 1938* (Blackwell, 1951). The warnings given here are in no way a stricture upon Mr. Seers's figures. On the contrary, the reader will find in Mr. Seers's book a great many other warnings as to the limitations of the results obtained.

[2] Op. cit., p. 39.

buted incomes of all kinds which can reasonably be imputed to persons. His results for 1938 and 1947 are shown in Table 1.

TABLE 1

Cumulative Percentages of All Private Income

Number of incomes	1938		1947	
	Before tax	*After tax*	*Before tax*	*After tax*
Per cent.				
Top 1	19	14	17	11
„ 2½	27	22	24	16
„ 5	33	28	30	21
„ 10	42	38	38	30
„ 25	58	54	55	48
„ 50	75	73	74	70

Source: Seers, *The Levelling of Incomes since 1938*, 1951.

Between 1938 and 1947 there appears to have been a slight, but definite, equalization in the distribution of gross private incomes. The top 10 per cent. of the incomes took 38 per cent. of the total in 1947, a noticeable fall when compared with the 42 per cent. of 1938. The share of the next 40 per cent. of incomes increased from 33 to 36 per cent. The share of the bottom 50 per cent. of incomes also increased, but only slightly, from 25 per cent. in 1938 to 26 per cent. in 1947. The equalizing tendency for incomes after tax is considerably more marked, though it shows the same characteristic as the change in the distribution before tax, namely that the lower 40 per cent. of the top half were the greatest gainers. From other evidence it seems likely that the equalizing tendency in the distribution of gross incomes occurred mostly between 1938 and 1944, and that from 1944 to 1947 the changes were not significantly in either direction.[1] In Chapter VIII, Mr. Little also suggests that the bulk of the redistributive effect of fiscal policy between pre-war and 1950 occurred during the war rather than since.[2]

The links between the distribution of personal incomes and the other elements in the economy are obscure, so that any interpretation of these changes may well prove, in the light of other evidence, to be wrong. In the first place, the definite, though very slight,

[1] Op. cit., p. 31. This statement is based on Pareto's coefficients, which apply only to the 'degrees of equality' of incomes above the mean income.

[2] We are referring here only to the effect of direct taxes on private incomes, and are not bringing into account the distribution of social service benefits which do not involve cash payments to the recipients, e.g. education.

equalizing tendency among gross incomes is the opposite of what one would expect on *a priori* grounds. In 1938, unemployment was over 10 per cent.: in 1947, apart from the fuel crisis, it was less than 2 per cent. In a free enterprise system a rise to such a high degree of employment would lead us to expect a shift from wages to profits, and this would, as a rule, lead to greater inequality in the distribution of personal incomes. A first suggestion, therefore, is that profits did not rise as much as we might normally expect, and there are two possible explanations ready to hand. Extensive government price control was introduced during the war, which may have prevented the share of profits rising, if it did not actually reduce it. Secondly, during the war much production was purchased directly by the Government, and profit rates (and margins) on war contracts were frequently reduced during the course of the war. Such purchases were, of course, on quite a small scale by 1947, but it is possible that business men's ideas about 'reasonable', 'fair', or 'normal' profits, which contemporary theory leads us to believe exercise some influence on price determination, had been modified by the war-time experience.

When we turn to the distribution of private incomes after tax, the reduced inequality in 1947 is much more definite. And clearly this is the result much more of taxation than of any action upon incomes before tax.[1] Table 1 actually lends strong support to the widely held view that, to achieve a more equal distribution of income, it is sufficient to rely upon taxation. In other words the fact that the distribution of gross incomes may be politically and socially unacceptable is not, in itself, a case for instituting a personal incomes policy. The gross incomes can be left alone, and the inequality corrected by taxation. The apparent illogicality of paying out moneys which are to be taken back in taxes is seen to be no objection once it is noticed that the income of any individual may be derived from more than one source, and that the object of taxation is to obtain the right distribution of the whole incomes of individuals. A more serious objection is that high taxation encourages tax evasion. When the marginal rate of taxation is 19*s*. 6*d*. (as it is for the highest surtax payers) or even 9*s*. 6*d*., there is an

[1] We are here discussing the distribution of money incomes, after direct taxation. Ideally we would want to study the distribution of *real* incomes, which would include the effects of indirect taxes. But there is no way of finding the contributions to indirect taxation of income receivers, grouped by size of gross money income.

obvious temptation to evade taxes. This is not only a question of breaking the law: it is also that much energy and ingenuity will be employed in finding loop-holes in the law. Essentially personal expenditures will find their way on to expense accounts of businesses, and so on. A progressive direct tax also means that, as the income of any individual increases, the rate of taxation at the margin is always higher, sometimes much higher, than the average rate of tax paid. This, it is argued, discourages effort. It is also objected against high taxation that it discourages personal savings. Certainly, if the National Income White Paper figures are taken at their face value,[1] personal savings have contributed very little towards capital formation in recent years.

On all the above grounds it is argued by many people that post-war rates of direct taxation have reached, or already gone beyond, the limit. They argue that the level of government expenditure should be reduced, to permit taxes to be lowered. Others may accept the present level of government expenditure, but argue that further increases in *direct* taxation would be dangerous, so that further redistribution of income by public finance is not possible. Statements of this kind have been repeated so often, and with such vigour, that it is as well to notice that firm evidence on these points is hard to come by. The 'incentives' argument, for example, can only apply, presumably, to those people, e.g. piece-workers, who are in a position to vary their income at will. Some may respond to a reduction in direct tax rates by producing more: but others may produce less, choosing to earn a given *net* money income with less effort: still others may not be affected at all. The deleterious effects of the decline in personal savings are also by no means firmly established.

Nevertheless, even if it can be questioned whether the disadvantages of high taxation have already outstripped any social gains from redistribution, it is clear that if direct taxes were raised further there must come a point somewhere when they would do so. Consequently, anyone desiring to achieve even greater equality of net incomes than exists at present might have to consider the question of interfering with incomes before tax.

So far, we have made no attempt to distinguish between in-

[1] This particular estimate is known to be very much of a guess. There are other hints, however, that the level of personal savings is now very low. Cf. Lydall, 'A Pilot Survey of Incomes and Savings', *Bull. Inst. Stat.*, Sept. 1951.

comes from 'work' and incomes from 'property'. In Table 1 the two kinds of income are lumped together. Some people take the view that it is the incomes from property which are the kernel of economic inequality,[1] and, in so far as this is the case, they argue that it would be more sensible to go to the root of the problem—the distribution of property—rather than to correct, by taxation, the distribution of income emerging from an unequal distribution of property. The way to do this is to raise a capital levy of the required amount. There is clearly much force in this argument, but there are certain difficulties. In the first place, it is by no means easy to distinguish, in any particular instance, between 'work' and 'property' when the purpose of the distinction is to separate incomes which correspond to some service rendered by the recipient from those which are pure surpluses. Secondly, so long as the capital levy is fairly small, the payers, who need to find cash, can dispose of some of their assets in the open market without depressing unduly the price of the assets. The presumption is that the prices would fall sufficiently to enable them to be purchased by 'poorer' property owners, on whom the levy is not so large. In this way the distribution of property would be gradually equalized. This is the way in which death duties work. But even in the case of death duties major difficulties frequently arise, for example, with large landed properties which have to be parcelled up, not always to the advantage of economic farming, or with large houses which are not easily divisible. Mr. Dalton's Land Fund was created specifically to safeguard certain properties of historic or other importance, by permitting their transfer to the state in payment of death duty.

If a large capital levy were intended, the Government would have to set up similar bodies to receive, instead of cash payment, blocks of land, buildings, or shares. They could not be resold immediately without causing a violent fall in asset prices. But if they were to be held by the Government, even only for the time being, the properties would have to be managed by the Government: or at any rate the Government would have to arrange for their management. A large capital levy means, in the strict sense, extensive nationalization of property. This may, or may not, be a good thing. The important point here is that the question of

[1] Others might take the view that 'work' incomes were also too unequal. But this would not modify the argument which follows.

management must not be overlooked when considering a capital levy as a means to reduce inequality of incomes.

Relative Incomes

Most wages, and increasingly salaries, are the subject of various forms of collective bargaining. Differences in wages and salaries, or profits for that matter, may, therefore, arise solely on account of differences in strength, or skill in negotiating, of the organizing bodies, be they trade unions, professional bodies, or trade associations. Such institutions have a life of their own, and it is not possible to account for their strength or weakness entirely in terms of purely economic factors, e.g. the extent of unemployment in the trade concerned.

It has frequently been argued that the influence of large and powerful trade unions, and other associations, is to make the structure of relative incomes, as between different occupations, very rigid. This was not a very noticeable defect in the inter-war years, when unemployment was general in nearly all trades. It simply meant that the distribution of unemployment was different from that which would have ensued if wages and salaries were determined by individual contracts, in accordance with the principles of free competition. But it might be a serious obstacle to a policy of full employment, in so far as the structure of wages and salaries determined by collective bargaining was not in line with the production requirements of the economy. Wages in an 'undermanned' industry might be acknowledged to be too low, but, if they were raised, other trade unions would secure proportionate increases for their own members, and thus prevent the emergence of a differential in favour of the undermanned industry, which, it was hoped, would attract additional workers. Consequently, either the objective of full employment would have to be abandoned, or else government direction of labour, on the war-time model, would have to be retained or reintroduced.

There is, I believe, some force in the argument that the particular institutions in Britain cause undue rigidity in wage and salary differentials: but it has frequently been overstated. As Mr. Wilson shows in Chapter XI (pp. 240–6), very considerable changes have occurred in the last ten years. Any criticism of the present arrangements for collective bargaining must therefore start from the fact that substantial relative movements as between industries

in wage rates and earnings can, and do, occur in quite a short time, and that during the war years at any rate, these movements were, by and large, in the right direction.

The rigid insistence upon differentials, e.g. for skill and training, within each industry has been adduced as a weakness of collective bargaining arrangements. Here again, however, the changes which have actually occurred within a decade are very substantial. The wage rates and earnings of unskilled labourers have risen more than those of skilled workers (Table 2); women's and juveniles' earnings have risen more than those of men. Both these movements are indicated by a general *a priori* reasoning where a state of full employment is contrasted with one of widespread unemployment, and they do not bear out the argument of undue rigidity.[1]

TABLE 2

Skill Differentials in Four Industries
Time rate of unskilled as percentage of that of skilled

	Building	*Shipbuilding*	*Engineering*	*Railways*
1929	74·7	68·0	71·3	65·2
1938	75·6	72·1	74·9	61·0
1945	80·8	81·0	81·9	76·0
1950	84·1	81·7	84·7	77·4

Source: Knowles and Robertson, *Bull. Inst. Stat.*, April 1951, p. 111.

The incomes of salary earners have also shown quite noticeable relative changes between 1938 and 1949 (Table 3).

As in the case of wages, the salaries of the less skilled workers have risen more than those in the more skilled, or at any rate more responsible posts.

The figures in Table 3, however, are in striking contrast with Mr. Wilson's figures in Chapter XI, Table 3,[2] for increases in hourly earnings of wage earners. The salary increases since before

[1] The figures in Table 2 are drawn from Knowles and Robertson, 'Differences between the Wages of Skilled and Unskilled Workers, 1880–1950', *Bull. Inst. Stat.*, April 1951. The authors of this article point out that over a long period the association between the 'skill differential' and employment is not strong: the association with the cost of living is much stronger. In both the First and Second World Wars, when both the cost of living was rising fast and employment was high, the 'skill differential' narrowed sharply. The practice of giving flat rate bonuses to all workers for cost-of-living increases obviously had a lot to do with it.

[2] p. 242.

the war are on an altogether smaller scale than those of wages. If we were to study changes in real incomes the contrast would be even more marked. For while the real incomes (before tax) of the majority of wage earners increased during the war and have been maintained above the pre-war level, the real incomes of virtually all salaried workers (before tax) are considerably below pre-war. Mr. Seers has calculated the value of *post-tax* personal incomes in terms of 1938 purchasing power for various classes of income.[1]

TABLE 3[2]

Percentage Increases in Salaries, 1938 to 1949

	Minimum salaries	*Maximum salaries*
Civil Service principal	19	14
Civil Service higher executive officer	23	23
Civil Service higher clerical officer	31	24
Civil Service clerical officer	43	29
Graduate teacher (provincial secondary grammar school)	45	28
Certificated teacher (industrial areas)	67	52
Railway clerk, Class I	44	40
Railway clerk, Class II	64	60
Bank clerk	124	36
Shop assistant (London area: Co-operative Society)	64	..

Source: Seers, op. cit., p. 60.

Table 4 shows real income, after tax, and is, of course, of greatest interest in throwing light on actual living standards of various groups. But even before tax the average real salary was down, while the average wage was about a quarter above the 1938 levels.

The few examples we have given above of changes in personal incomes of various types must suffice to make the point that in the last ten years there have been substantial changes in the structure of wages, salaries, and other personal incomes. The case for a 'policy'—with appropriate government intervention to achieve it —cannot therefore start from the simple assertion of rigidity. It may be, however, that though there is undoubtedly some flexibility in relative incomes, it is still insufficient for the requirements

[1] Seers, op. cit., p. 54.

[2] These figures are for men: the percentage increases for women in the respective grades were much the same, except for railway clerks, where they were greater. Cf. Seers, op. cit., p. 60.

of a fully employed economy. Before coming to this, let us consider two questions which the above account obviously prompts.

First of all, has the narrowing of the 'skill-differential' endangered the supply of craftsmen and other skilled workers? In the *Statement*

TABLE 4

Indexes of Post-tax Incomes in 1949 in terms of 1938 Purchasing Power (1938 = 100)

	Total real income	*Average real income per head*
Wages	128	120
Salaries	96	82
Forces' pay	157	82
Farming income	191	191
Professional earnings	89	89
Sole traders' profits	78	82
Distributed property income	51	..
Social income	146	..
Total personal income	102	..

Source: Seers, op. cit., p. 54.

on Personal Incomes, Costs and Prices of February 1948,[1] there is an oblique reference to this point.

> The last hundred years have seen the growth of certain traditional or customary relationships between personal incomes—including wages and salaries—in different occupations. These have no necessary relevance to modern conditions. The relation which different personal incomes bear to one another must no longer be determined by this historical development of the past, but by the urgent needs of the present.

The General Council of the T.U.C. called a special Conference of Trade Union Executives in March 1948, to consider the Government's White Paper, and in its statement issued to the Conference, the General Council of the T.U.C. mentioned:

> The need to safeguard these wage differentials which are an essential element in the wages structure of many important industries and are required to sustain those standards of craftsmanship, training and experience that contribute directly to industrial efficiency and higher productivity.

These statements reveal that the T.U.C. was rather more anxious about safeguarding skill differentials than the Government, but

[1] Cmd. 7321.

neither indicates the extent to which the narrowing which had already occurred was causing concern. Mr. Flanders has pointed out that, up to 1950, there was little evidence to suggest that the narrowing of the relative skill differentials had led to a shortage of craftsmen.[1] Rearmament has, however, quickly come up against shortages of skilled engineers: in this case training facilities may be more important than wage differentials. Nor is there evidence that, in general, the relative deterioration of real salaries has caused the supply of recruits to the professions and salaried posts to dry up, though there is evidence that particular occupations have been adversely affected by too-low salaries. For example the rapid increase in numbers of well-paid government and industrial scientific posts has virtually extinguished the supply of abler science graduates for the teaching profession. There are indications also that the Civil Service is losing more men from the higher ranks to industry.

There is, however, a serious obstacle to forming any conclusions about future recruitment for the skilled and salaried posts. Income is only one of the factors influencing the choice of such occupations. Prestige, the intrinsic interest of a job, the desire for responsibility, the social background of parents (as well as their occupation) are all important influences in guiding the young man or woman towards a particular employment. Consequently the effect of even large changes in the position on the income scale of a particular employment may not show itself in recruitment, still less in total supply, for some considerable time. For example, the present extreme shortage of coal-miners has its origin in the failure to recruit sufficient sons of miners in the 'twenties and 'thirties. Equally, the situation is bound to remain acute for a long time to come, since even if every miner's son now alive, below the age of 15, were to go into the industry, the total manpower would still continue to fall drastically.[2]

In the discussions of wages policy immediately after the war, much emphasis was placed upon the need to obtain a wages structure which would bring about the right distribution of manpower, thinking in terms of broad industrial groups. Latterly, this aspect

[1] Flanders, 'Wages Policy and Full Employment', *Bull. Inst. Stat.*, July–Aug. 1950, p. 229.

[2] Not that recruitment has in the past been, or in the future ought to be, limited to miners' sons. But that is the major traditional source, and one may hazard the guess that the wage required to attract recruits from outside the industry is larger than that required to retain a miner's son in it.

of the question has caused far less concern. For this there are several good reasons.

In the first place, the problem is essentially one of balancing the outputs of different industries and regions. If there is a surplus of labour in a region it is not always necessary that workers should migrate to another. An alternative is to bring in new capital to the area, and, as Mr. Fogarty argues in Chapter XII, in many industries capital is highly mobile, i.e. private costs of production are little affected by the actual location of a plant. Similarly if the output of a particular industry needs to be increased, additional capital is, within limits, an alternative to seeking additional workers. Regulation of the flow of new equipment into industries and regions can, therefore, reduce the need for workers to change their homes or their occupations.

Nevertheless some movement of workers must clearly go on all the time. But the influence of wage differences must not be exaggerated. Variations in demand for the output of an industry are likely to be followed fairly quickly by variations in employment. The fact that wages are lower in industry *B* than in industry *A* will not be a decisive deterrent to movement if there are no jobs being offered in *A*. There have, it is true, been instances of employers in less essential trades 'hoarding' labour, but they are not likely to do so for any length of time unless they anticipate a strong rise in demand for their products in the near future. Thirdly, although the machinery of collective bargaining has been criticized for its rigidity, there has been a great accumulation of experience in negotiation, and, in the case of arbitration, in the making of awards, so that the parties concerned are usually aware of the possible secondary consequences of a wage increase in any particular case. Up to this point, therefore, one is inclined to conclude that there is little evidence that the economy has, during and since the war, suffered serious damage on account of the alleged inflexibility of the wage structure.

The more serious problem, I think, is one which has attracted far less public notice, namely the structure of salaries. Most salaried and professional posts carry with them a high degree of security against unemployment. Variations in the demand for these services do not express themselves in variations in employment, but in the intensity of work. The 'output' of senior civil servants undoubtedly increased during the war far more rapidly

than their numbers. Just because it is so difficult to measure 'output' in such cases, and also because the response of recruitment to income differentials works itself out only slowly, it is essential in this field to look some way ahead. Moreover, it is just in this field that the Government, as a major employer, might exercise a considerable influence upon differentials. The early beginnings in this respect were not too encouraging. In adopting the recommendations of the Spens Committee for salaries of medical specialists in 1948 the Government could congratulate itself on its generosity, which no doubt gave a fillip to the new National Health Service. Ministers might have been more cautious, had they anticipated that, working through the medical posts in universities, this would lead to a strong demand, which the Government itself had to accept, for substantial increases in the salaries of university teachers generally.

This example shows that, at present, the Government's position is not that it can simply accept some outside 'market rate' for its own employees, without fear of the consequences. Nor is it in a position simply to dictate salaries at will. Its position is analogous to that of a price-leader in an oligopolistic market.

The need for a long-term policy for salaries is all the greater because of the recent, but now almost universal, acceptance of collective bargaining by salaried workers. Increasingly scientists, doctors, university teachers, school teachers, and so on are represented by powerful associations using the whole gamut of arguments of trade unions. The dangers of rigidity here are far more serious than for manual workers. For while a deficiency of manual workers can usually be overcome by more capital, a deficiency of highly skilled technical and administrative workers cannot be made good nearly so easily by alternative means.[1]

We come now to a consideration which may oblige us to abandon, or modify, the tentative conclusions already reached. Admittedly the structure of wages and salaries has shown considerable flexibility in the last decade: but this, it may be argued, has only been possible because the general level of money incomes was rising throughout the war, and again in 1945–50, at a fairly rapid pace,

[1] 'In public discussions of the problem of management in the (British coal) industry, much attention has been paid to the relative merits of centralization and decentralization, but little to the more fundamental problem of attracting the best brains to the industry.' *The European Coal Problem*, Report of E.C.E. 1952, p. 12.

in the case of money wage rates at an average rate of about 6 to 8 per cent. per annum. There were, of course, some periods of slower increase, notably in the eighteen months following the *Personal Incomes* White Paper, and others of more rapid increase. But the movement has always been upwards. In the context of a general rise it has been possible to allow some wages or salaries to go up faster than others. But if, for other reasons, the general level of money incomes had to be stabilized, *relative* movements would become far less easy to obtain, since no one, wage earners or salary earners, would accept an actual cut in money income. This is the well-known 'money-illusion' of Keynesian theory. It is time, therefore, to bring to the fore the significance for the economy of the general level of nominal money incomes.

The inflation of nominal incomes

From 1939 to 1950 the trend of wage rates, earnings in certain industries, and the cost of living in Britain was steadily upward (Table 5).

TABLE 5

Movement of Wage Rates and Cost of Living, 1938–50 (1938 = 100)

	1939	*'40*	*'41*	*'42*	*'43*	*'44*	*'45*	*'46*	*'47*	*'48*	*'49*	*'50*
Earnings* . .	..	130	142	160	176	182	180	190	203	220	229	240
Wage-rates (Bowley Index)	101	112	122	131	138	146	154	167	175	188	193½	197
Cost of Living (L.C.E.S. Index)	102	119	130	139	143	146	148	150	160	173	178	184

* Average weekly earnings in certain manufacturing and other industries. Oct. 1938 = 100. The figures for 1940–5 refer to July, and 1946–50 to October.

Sources: Monthly Digest of Statistics and *L.C.E.S. Bulletin.*

As we have already seen (Table 4), other types of nominal income were also rising substantially, farming income a good deal more than average, but other groups, e.g. salaries, substantially less. Strictly speaking, all the variables in an economic system essentially determine one another, so that there is always a risk in singling out particular causes to explain a movement of this kind in money incomes and prices. We shall not, I think, be so far wrong if we list three main influences which have been at work since 1939.

1. During the war the expansion of the armed forces and war production created an excess of demand over supply in virtually

all sectors, which was partly, but by no means wholly, reduced by higher taxation. The distribution of factors of production and consumers' goods was for the greater part regulated by direct controls. The excess demand continued after the war, the desire to spend accumulated war-time savings filling, as it were, any gap left by reduced government war expenditure. The excess of demand over supply was undoubtedly a major force in pulling up prices, not only during the war, but in the years immediately following. On the other hand, though it is difficult to measure precisely the extent of excess demand, it was diminishing in the years 1945–50 and, apart from particular markets, was probably not nearly so powerful a force after 1948 as it had been during the war. Variations in this factor alone cannot explain the course of prices, for the excess demand rose to great heights in the later part of the war and was dying away after, while the trend of prices continued fairly steadily upwards.

2. The prices of imported goods, raw materials, and manufactured goods were rising during the war, and in the years 1945–50 rose considerably more, though with distinct fluctuations, than the cost of living in Britain. Higher import prices affect directly the costs of goods produced in Britain which embody imported materials. The effect on the cost of living, however, was, throughout the period, substantially modified by food and raw material subsidies. In the case of foodstuffs, the British official cost-of-living index number was almost completely insulated from 1941 until the end of 1948 by food subsidies, which were steadily increased to the extent necessary to keep the retail prices of essential foods stable. The same was true of many imported raw materials. The pegging of the food subsidies at a fixed figure in the Budget of April 1949, and the gradual withdrawal of raw material subsidies, which began somewhat earlier, meant that thereafter the internal price level reflected fully the higher import prices.[1] In fact, in so far as subsidies were actually reduced, the internal price level rose more sharply still.

If the cost of living rises because of higher import prices, this may induce a demand for higher money wages. This leads us to the third of our major influences.

3. The third 'influence' is the interaction between money wages and prices. This works in two ways. If the cost of living rises trade

[1] Though, of course, with a time-lag.

unions may demand higher money wages. When employment is high, they are likely to get them. The rise in money wages will, unless there is either a reduction in profit margins, or a simultaneous increase in productivity, raise costs per unit of output and so push up prices once more.[1] Equally a spontaneous rise in money wages will push up costs and prices. This two-way process is certainly likely to occur when there is excess demand in all markets. It may well occur even if there is no excess demand—a point to which we shall return in the concluding section.

The actual course of wages and prices in Britain since 1938 can, I think, be largely explained in terms of these three influences, but it would carry us too far afield to attempt any detailed account here. The point to bring out is that an increase in either prices or wages, whether coming in from outside (e.g. higher import prices) or occurring, spontaneously, at home may start a cumulative process. The question then is whether this process can be slowed down, or halted, by government intervention in the right places.

The Personal Incomes White Paper of 1948

We come now to the attempt made in 1948 to institute voluntary restraint in personal incomes in Britain. This was not the first attempt to formulate government policy in this field. In the autumn of 1941 the Government issued, in a White Paper, a statement affirming the Government's view that the processes of free collective bargaining should not be tampered with during the war, but appealing to employers and unions 'to do their best to prevent the costs of production rising, from whatever cause'. At the same time the Government decided to stabilize the official index number of the cost of living by means of subsidies. In the event this index number did not move more than a point or two until June 1947, when it was replaced by the Interim Index of Retail Prices. As can be seen from Table 5, the stabilization of the cost-of-living index number in 1941 did not prevent further increases in money wage rates, which continued to rise steadily at about 6–8 per cent. per annum.[2] This does not mean that the the movement of wages was

[1] For a fuller account of the process cf. Institute of Statistics, *Economics of Full Employment*, Blackwell, 1944, ch. 3, pp. 63 et seq.

[2] Earnings rose even faster than wage rates, because of longer hours, bonus payments, and so on.

independent of the cost of living: without stabilization of the index the upward movement would undoubtedly have been faster. Moreover, the official index became increasingly unrealistic, and a more accurate measure of changes in actual living costs, such as the *L.C.E.S.* index quoted in Table 5, shows that retail prices were rising throughout the war. In their wage claims, trade unions increasingly stressed the bias in the official index, although the various sliding-scale agreements continued to be based on the official index number.

The *Statement on Personal Incomes, Costs and Prices* (Cmd. 7321), issued in February 1948, reaffirmed the Government's view that direct interference with the determination of personal incomes was undesirable. The *Statement* urged that there should be 'the strictest adherence to the terms of collective agreements'. 'In present conditions', the *Statement* went on, 'and until more goods and services are available for the home market, there is no justification for any *general* increase of individual money incomes'. In other cases, however, increases might be justified from the national point of view, and the White Paper cited the manning up of undermanned industries as a possible example. The achievement of the stabilization of money incomes was left to the individuals and organizations concerned:

> In order to avoid the undesirable necessity for any interference with the existing methods of free negotiation and contract the Government must press upon all those engaged in negotiations or decisions which might result in an increase in wages or other personal incomes to keep these principles firmly before them, and not to depart from them. The Government will themselves observe these principles in any negotiations in which they are directly concerned.

The T.U.C. called a conference of trade union executives in March 1948 which, after protesting that the Government's policy had been put forward without prior consultation, accepted the principles of the White Paper with two important provisos. The first, concerning differentials, we mentioned earlier on: the second was to insist on the need to raise wages where these were below a 'reasonable standard of subsistence'.

This renewed appeal for voluntary restraint had quite considerable success. Table 6 shows the month-by-month movement of wage rates and the Interim Index of Retail Prices in 1948, 1949, and 1950.

From March 1948 to March 1950 wage rates rose 5 per cent. in two years, compared with an annual rate of some 6–8 per cent. in the preceding eight years. Retail prices rose 7 per cent. Not long before the White Paper, the Government had announced its intention of pegging the food subsidies, i.e. unpegging the cost-of-living number. This was bad psychology. In the event the food subsidies were, after all, allowed to run up in 1948 and the 'ceiling' was not introduced until a year later. It was also a psychological

TABLE 6

Wage Rates and Retail Prices, 1948–50. (June 1947 = 100)

	1948		*1949*		*1950*	
	Wages	*Prices*	*Wages*	*Prices*	*Wages*	*Prices*
January	104	104	108	109	110	113
February	104	106	108	109	110	113
March	105	106	108	109	110	113
April	105	108	108	109	110	114
May	105	108	108	111	110	114
June	106	110	109	111	110	114
July	106	108	109	111	110	114
August	106	108	109	111	110	113
September	106	108	109	112	110	114
October	107	108	109	112	111	115
November	107	109	109	112	113	116
December	107	109	109	113	114	116

Source: Monthly Digest of Statistics

mistake to grant certain immediate exemptions from the price ceiling orders of March 1948.[1] Nevertheless, to begin with, the response to the appeal for restraint in wage demands was considerable. The majority of enterprises also responded by refraining from raising dividends.

The devaluation of sterling in September 1949 came as a shock to the T.U.C., and in its new recommendations to member unions, the General Council went further than ever before. It recommended a wage standstill, including the suspension of existing cost-of-living sliding scale agreements, until the end of 1950, adding a proviso that this should only hold if the Interim Index of Retail Prices should remain between the upper and lower limits of 118

[1] Cf. Chapter XIII, p. 290.

and 106 (it was standing at 112 in September–November 1948). But when these recommendations were put to the Conference of Trade Union Executives called in January 1950, the majority for them was very narrow. The General Council was obliged to retreat from its position and in June 1950 sent out a circular to affiliated unions in which it was recognized 'that there must be greater flexibility of wage movements in the future. . . . They are firmly convinced that there is no formula which can be devised as to how this flexibility should operate'.

It is reasonable to attribute the slow crumbling of the policy of wage restraint (incidentally a parallel crumbling occurred in dividend limitation) to the fact that the cost of living continued to climb slowly. The effects of devaluation on the cost of living were delayed and only began to gather momentum towards the end of 1950. By then there was little left of the official 'restraint' policy. In the summer of 1951 the Labour Government announced its intention to introduce legislation to limit dividends. The General Election came, however, before the proposal could reach the Statute Book.

Conclusions

What conclusions can we draw from the experience of the years 1945–50? In the first place the appeal to voluntary restraint in 1948 did undoubtedly slow down the upward movement of wages and prices. Had the cost of living been stabilized, it is conceivable that the process might have been halted altogether. Be that as it may, it is also clear that voluntary restraint begins to wear thin with the passage of time: the signs of weakening were apparent even before devaluation. Once devaluation had occurred, there was little to be said for stabilization at the existing level of wages and prices. For the extent of devaluation was much greater than was called for by any consideration of relative costs of British and foreign manufactures.[1] A rise in the British wage and price level was now not merely possible, but, within limits, desirable, as a means of restoring the terms of trade so adversely affected by devaluation itself. Consequently the breakdown of the 1948 policy did not, after all, do any harm to the balance of payments.

[1] Oddly enough labour costs per unit of output in the United Kingdom were *falling* relative to labour costs in U.S.A. in the course of 1948. *Economic Bulletin for Europe*, Geneva, 2nd quarter, 1949, p. 35.

Can we conclude that the whole attempt was misconceived? There is one school of thought which suggests that it was. According to this view a steady inflation of wages and prices has certain disadvantages, such as the reduction of the real value of small salaries and rentier incomes, and of social-insurance benefits. These, however, could be overcome by special measures. Why not, therefore, accept the inflation as normal and deal specifically with the, relatively minor, problems of hardship which are created? This is not an unattractive idea: for it means a persistent eating away of the burden of debts, and an encouragement to the entrepreneur. But it leaves out of account what happens if the rise in prices begins to accelerate. A carefully controlled rise in the general level of prices is one thing: a rise which, by accident, has been fairly steady so far, but might at any time get out of hand through the gradual sapping of confidence in the value of money, is another. Inflations have got out of hand on many occasions in other countries, and the argument that 'it could not happen here' is not altogether convincing.

The second objection comes from the relation of the British price level to those of other countries. While it is never possible to determine precisely what the level of British prices ought to be—so many other factors being also involved, such as levels of employment and interest rates, the existing balance of payments and lending, and so on—nevertheless, there can clearly arise situations in which British money incomes and prices are 'too high' or 'too low'. In the past decade both states have been experienced. In 1947, and again immediately after devaluation, there was substantial evidence that British export prices could have been higher than they were without a loss, and indeed with a gain, of foreign earnings. On the other hand, in 1948–9, owing to the fall of the U.S. price levels in the recession at the end of 1948, British prices may well have been too high. It would, of course, be quite impossible to make rapid adjustments of price levels through variations in nominal personal incomes. But the general trend of prices could undoubtedly be so influenced. During and since the war, with the possible exception of 1948–9, the general upward trend of wages and prices in this country did not create grave difficulties, because the same general movement was occurring elsewhere, notably in U.S.A.

So long as world inflation, and especially American inflation goes on, the British wage and price level can, and ought to, rise

correspondingly. But if world prices, and more particularly U.S.A. price levels, were to be stabilized, Britain would have to think again. It is true that the same internal forces of high employment and strong trade unions are at work in U.S.A. as well as in Britain. But the rate of increase of U.S.A. productivity is considerable. Moreover, it is worth remembering that, throughout the 'golden age' of the 'twenties in the U.S.A., prices were gently falling. A repetition of this stability, even in the absence of a deep slump, is by no means impossible.

According to the 'inflationist' school even this does not call for a personal income policy: it simply means that sterling will have to be devalued from time to time. Unfortunately this policy is open to the same objection made earlier on to inflation internally: it would encourage speculation against sterling and it might well lead to a quite unnecessary deterioration of the level of sterling, with the result that the terms of trade would be far more unfavourable than they need be. There is a further difficulty that price movements in other parts of the Sterling Area may not be similar to the British, so that the devaluation of sterling might do as much harm to the balance of payments of other members as it improved the purely British balance. Finally, just as an internal inflation can become cumulative, so also can the inter-action between rising domestic prices, devaluation, higher import prices and higher wages.

There is a second school of thought which maintains that the persistent upward pressure of money wages has only occurred because of an excessively high effective demand. With the right degree of 'disinflation' the tendency would disappear. The trouble is that no one really knows what is the critical level of unemployment, in post-war Britain, at which money wages would no longer tend to rise, spontaneously, faster than the increase in productivity. If it proved to be between 2 per cent. and 4 per cent. unemployment, many people might advocate this solution, if external conditions required it. But if it were 10 per cent., deflation, in order to secure price stability, would find few supporters. Since throughout 1945–50 unemployment was less than 2 per cent., there is no possible appeal to the British evidence. My own guess is that the critical unemployment rate might well be as high as 5 per cent., i.e. about one million unemployed, and I do not believe that this rate is politically tenable for any length of time in contemporary Britain.

Consequently, I believe that another attack on the problem may be necessary in the coming years.

This is not the place to outline a detailed policy to meet some hypothetical situation. But it may be appropriate to conclude with some observations based not merely on the course of events, but also on the theoretical discussions, of 1945–50.

In the first place a detailed central regulation of all personal incomes is out of the question. No substantial body of opinion can be found to support it. Consequently the essence of the problem is to operate on the strategical elements. On the trade union side this means an attempt to bring some co-ordination into the wage claims of about half a dozen or a dozen of the major unions. If these could be brought forward simultaneously, so that each union became acutely conscious of the consequences for their own members of the others' claims being granted, it might, in turn, take note of the secondary consequences of its own claims.

The unions, however, are not likely to go far in this direction unless employers are prepared to make price reductions in situations where profits are high but wage increases are not justified on other grounds. This is easier said than done, since the variations in profits are one of the means of securing stability of output and employment against external fluctuations.

Statutory price control can and should be used in certain instances for this purpose, but the experience of 1945–50 suggests that the scope of price control is limited. The main use of price control, however, goes with the use of subsidies, to effect the stabilization of some 'basket of goods'. The particular 'basket' stabilized during the war, and until 1949, was somewhat arbitrary, as also was the particular level at which prices were stabilized. This is not merely a question of statistical inadequacy. Statistics are, of course, involved in the construction of any index number. But the kernel of this problem is political. The Government ought to have negotiated, and may in the future be obliged to negotiate, with employers and unions, to establish an agreed 'basket', whose price will be stabilized, for specified periods. A regular machinery also should be set up, to revise, at definite intervals, both the index and the price level, in the light of changing circumstances.

If some such procedure were agreed the Government might then be able to exercise a strategic control over the trend of the general level of money wages. For salaries, there is perhaps, less

need for any new machinery, than for more careful study of the structure of salaries, and more conscious 'price-leadership' by the Government in making, or influencing, the various awards in which it is closely concerned.

The rise and fall of the 'national wages policy' in 1945–50 might be cited as a triumph of the British way of muddling through. But we may be wiser to bless our good fortune, not to be too sanguine about the future, and even to learn from the experience of other countries.

CHAPTER XV

MACHINERY OF GOVERNMENT AND PLANNING

By D. N. CHESTER

THIS chapter is concerned with the working of the machinery of central government during the six years of Mr. Attlee's first two Labour Administrations, August 1945–October 1951. It is desirable, however, to start by outlining the machinery as it existed before the 1945 election and to indicate some of the war-time developments.

The period 1939–45 was characterized by important changes in the organization and outlook of the central government. These may be summarized as follows:

(1) There was a tremendous increase in the responsibilities which the central machine had to handle and these involved changes in the machinery of government.

(2) Immediately on the outbreak of war a small War Cabinet had replaced the then Cabinet composed of almost all eligible Ministers. Though the size and composition varied the War Cabinet never exceeded nine members.

(3) New economic departments were established—principally the Ministry of Food, Ministry of Supply, Ministry of Fuel and Power, and, rather later, a Ministry of Production.

(4) There was a very great increase in the use of inter-departmental committees at all levels. At the ministerial level, after various experiments, the Lord President's Committee emerged supreme as a kind of sub-Cabinet for home affairs. There were also important and active inter-departmental committees concerned with the allocation of manpower, of raw materials, of shipping, and of foreign exchange.

(5) A whole apparatus of administrative devices had been developed for the control of most aspects of economic activity: labour registration, licensing of raw materials, building and machinery, rationing of food and most consumer goods. Equally important from the viewpoint of control the Government had become the main purchaser, not merely of large

quantities of manufactured goods for the armed forces but also of most imports.

(6) Some machinery for international co-operation in economic affairs had been developed—for example, the Combined Boards for Raw Materials, Munitions, and Food.

(7) There had been a great increase in the number of civil servants. At 1 April 1945 there were 716,000 non-industrial civil servants as against 398,000 at 1 April 1939. The corresponding figures for industrial staffs (principally employed by the Post Office, Ministry of Supply, and the Service Departments) were 665,000 and 240,000 respectively.

(8) There had been an increase in the use of trained economists and statisticians. In addition to the Economic Section and the Central Statistical Office, economists had been recruited by the Treasury, Board of Trade, and most of the departments concerned with economic affairs. The numbers involved were, however, not large and most of those recruited were on leave of absence from the universities.

The Labour Government inherited these developments. Indeed, as members of Mr. Churchill's National Coalition Government many of the members of Mr. Attlee's Cabinet had played their part in helping to develop this machinery. It is important to appreciate this continuity. Normally, when the Opposition comes into office its leading members may well have had no ministerial experience for say four or five years. The big names in Mr. Attlee's first Administration, with the exception of Mr. Shinwell and Mr. Bevan, had all held important ministerial posts during the war. Mr. Attlee had had the title of Deputy Prime Minister and had been at various times Lord Privy Seal, Dominions Secretary, and Lord President of the Council, and chairman of various Cabinet committees. Mr. Morrison (Lord President of the Council) had been Minister of Supply, Home Secretary and Minister of Home Security. Mr. Bevin (Foreign Secretary) had been Minister of Labour and National Service. Mr. Dalton (Chancellor of the Exchequer) had been Minister of Economic Warfare and President of the Board of Trade. Sir Stafford Cripps (President of the Board of Trade) had been Lord Privy Seal and Minister of Aircraft Production.

Moreover, not only did the Labour Government inherit a machine of which they had already had much experience and had

helped to fashion but they had also been closely associated with internal discussions about peace-time changes in that machine. A Coalition Government Committee had given some thought, for example, to the future structure of the Cabinet and Cabinet committees, and though it was appreciated by all concerned that in these matters the predilections of the Prime Minister of the day and his leading Ministers would be more important than general theories, these discussions undoubtedly helped to clarify Ministers' minds. Of greater significance had been the discussions on the White Paper on *Employment Policy* and of the machinery necessary for carrying out that policy.

The White Paper on *Employment Policy* (Cmd. 6527) was presented to Parliament in May 1944 by the Minister of Reconstruction (Lord Woolton). Its production had been stimulated by Beveridge's assumption C in his report on *Social Insurance and Allied Services* published in December 1942. Keynes, however, and not Beveridge was the prophet, although neither is mentioned in the White Paper. The policy outlined was criticized in some quarters at the time as not going far enough and as bearing the marks of compromise. These criticisms, even if accepted, should not detract from the great importance of the document in the development of British Government. The leading members of both the Conservative and Labour Parties had reached agreement, admittedly under the pressure of war, as to the attitude which any government should adopt after the cessation of hostilities towards central control of economic policy. Whichever party won the 1945 election could be counted upon by the Civil Service to carry out an economic policy which, to put it no higher, would be more like that developed during the war than that of the 1930's. The administrative machine could be geared accordingly.

There is not a great deal about the machinery of government in the White Paper, or at least nothing very explicit, but the main ideas are clear.

(*a*) The maintenance of a high and stable level of employment was accepted as one of the primary aims and responsibilities of future British governments.

(*b*) Any government during the transition from war to peace would have to take steps to guard against inflation, to secure the production and equitable distribution of essential supplies, and to avoid balance of payments difficulties.

(*c*) The approach to the maintenance of a high and stable level of employment was to be by way of the maintenance of total expenditure. This would involve not only the continuation of the war-time practice of officially measuring the national income and expenditure, but also of operating on its various components, e.g. investment and government expenditure, to secure the right overall level. It was proposed therefore, at paragraphs 84 and 85,

to develop the annual White Paper on National Income and Expenditure by providing a much more complete analysis than has hitherto been possible of the constituent parts of the country's total expenditure. In particular, direct estimates will be made of the various types of capital expenditure and the various sources of savings. This will be, in effect, the Capital Budget of the nation's wealth.

This central analysis of our financial position, which will be subject to continuous review and adjustment throughout the year, will serve as a basis for determining what measures are required to maintain employment and secure a rising standard of living. It will be essential, therefore, that at every stage there should also be parallel studies of the manpower position. These will be undertaken by the Ministry of Labour and National Service who, in the light of the knowledge and experience which they have acquired during the war, will be specially well-equipped to keep the employment situation throughout the country under constant review and to direct attention to the employment aspects of national policy. The surveys prepared by the Ministry of Labour will indicate the probable supply of labour over the coming period, the prospective changes in employment in the different industries, and the effects upon employment of Government projects designed to modify the volume of investment or expenditure. The correlation of these complementary budgets—for total expenditure and for manpower—will thus play a vital part in the formulation of Government policy for the maintenance of employment.

(*d*) As for actual machinery the only specific reference is the opening sentence of paragraph 81 which reads:

The Government intend to establish on a permanent basis a small central staff qualified to measure and analyse economic trends and submit appreciations of them to the Ministers concerned.

In its 1945 election manifesto *Let Us Face the Future*, the Labour Party made hardly any references to the machinery of economic planning. It was stated that 'A National Investment Board will determine social priorities and promote better timing in private

investment'. And after a statement about 'The shaping of suitable economic and price controls to secure that first things shall come first in the transition from war to peace' there was a cryptic reference to 'The better organization of Government departments and the Civil Service for work in relation to these ends'.

Reliance on Inter-departmental Co-operation

The machinery of government during the first year of Mr. Attlee's first Administration was not very different from the machinery that had been developed during the war. War-time, however, always justifies special measures. The continuation of those measures into peace-time and their consolidation as part of the central government was an important innovation. The significant differences were:

(i) Mr. Attlee's Cabinet was much larger than any of the War Cabinets, containing twenty Ministers at first as against the range of five to nine in the War Cabinet. Even so this was not a return to the pre-war practice of including all except a few minor Ministers. Had Mr. Attlee done this his Cabinet would have contained nearer thirty Ministers, for several new Ministries had been created since 1939. Mr. Attlee excluded an appreciable number of Departmental Ministers, including the Ministers of Food, Supply, Transport, and Works.[1]

(ii) The Ministry of Production was abolished. During Mr. Churchill's Caretaker Government Mr. Oliver Lyttleton had combined the posts of President of the Board of Trade and of Minister of Production, and Sir Stafford Cripps continued this arrangement for a little longer whilst the latter Ministry was being wound up. The Ministry of Production had been established in 1942. Starting from a small co-ordinating group concerned with munitions production, it had gradually expanded into a comparatively large department concerned with most economic aspects of the war effort, with the exception of general economic policy and the allocation of manpower. After the war it might have been continued and become the major economic co-ordinating department but it had few friends and disappeared amidst the rival claims of at least three senior Ministers—Lord President, Chancellor of the Exchequer,

[1] The Minister of Fuel and Power was included when Mr. Shinwell held that office, i.e. until October 1947, but not thereafter.

and President of the Board of Trade—to be regarded as the major force in economic co-ordination.

The Lord President and his committee retained a dominating position in the central machinery for economic policy and at the outset there was no major change in the structure of Cabinet committees.

There were, however, important developments in the committees composed of senior officials. Official committees (or working parties) concerned with surveying the main elements in the economic balance sheet and making recommendations were established[1] for Manpower, Capital Investment, Raw Materials, and Balance of Payments. There was also a Steering Committee, under the chairmanship of the Permanent Secretary to the Treasury, concerned with bringing together the surveys of these subordinate committees, reconciling differences and generally presenting a total picture of the economic situation to Ministers. More will be said about their work later.

Looking back now one can see that many Ministers and senior officials showed undue satisfaction, even smugness, during the first year at least of the Labour Government. Everything looked set fair. The Japanese War had ended much more suddenly than anybody had hoped or even planned for and the way was open for a large-scale transfer of resources from war to peace-time uses. The Chancellor of the Exchequer could both reduce taxation and increase expenditure on social services. There were the great nationalization measures in the course of passage—Bills dealing with the Bank of England, Coal, Civil Aviation, and Cable and Wireless had received the Royal Assent well before the end of 1946 and those dealing with Raw Cotton, Transport, and Electricity had been drafted and the first two had already started on their parliamentary careers. Moreover, the main fear in Ministers' minds at this time was the probability of large-scale unemployment due to the changeover from war to peace, and when this change did not materialize, it took them some time to appreciate the character of the other dangers.

It is perhaps not remarkable, therefore, that there is little or no discussion of central planning during this period. The index to *Hansard* for the session covering August 1945 to November 1946 contains no specific references to economic planning or to planning

[1] A Manpower and a Materials Committee existed during the war.

(other than town and country planning). Mr. Dalton, introducing his first interim budget on 23 October 1945, did not mention economic planning, nor did he deal with the economic situation. In February 1946 a debate took place on manpower and economic affairs. Mr. Attlee, replying[1] to Mr. Lyttleton, explained the system of labour allocation. First the total manpower resources were ascertained, then departments were asked to state their claims for the coming period. As resources were found to be insufficient to meet all claims some claims had to be cut. The Government had adopted certain general principles for making these allocations. These principles were: to hold back on less essential demands; to push on with most essential; to hold back in areas of labour shortage and to push ahead in areas of labour surplus. Mr. Attlee also had a little to say about balance of payments difficulties.

Next day[2] Mr. Morrison, as Lord President and the person primarily concerned with economic policy, answering a Labour back-bencher who wished to know more about the machinery of economic planning, said: 'I am happy to say that the machinery of economic co-ordination and administration has undoubtedly improved enormously during recent years.' In 1929–31 when the Labour Party was last in office there had been 'little adequate economic organisation at all' but big strides had been made during the war. 'We learnt a lot about this in the war, and those lessons are being applied to peace.' He referred to the Economic Section and the Central Statistical Office, refused to say anything about Cabinet committees, and rejected the suggestion of an economic general staff ('Such an organisation would become almost as big as the Government itself').

The general atmosphere of complacency was rudely shattered by the fuel crisis of February 1947. Doubts had been growing for some time about the Government's handling of both the fuel situation and the balance of payments. The fuel crisis occurred first. After a certain amount of talk by the Government but very little action during the autumn and the early part of the winter, a particularly bad spell of weather caused a widespread coal shortage. Stocks ran down rapidly and in face of the threat of a complete

[1] *H.C. Debates*, 27 Feb. 1946, vol. 419, cols. 1951–65.

[2] *H.C. Debates*, 28 Feb. 1946, vol. 419, cols. 2128–31. For a later and fuller exposition see his address to the Institute of Public Administration on 17 Oct. 1946, published as a pamphlet by the Institute under the title *Economic Planning*.

breakdown of electricity supplies, drastic, indeed on occasions panic, measures were suddenly taken in February.

On 7 February 1947, late on a Friday afternoon, a day not normally used for important parliamentary business, Mr. Shinwell startled the few Members present by announcing that as from the following Monday no electricity would be available for industrial consumers in London, the south-east, the Midlands and the north-west and domestic use would be severely curtailed. As a result unemployment rose temporarily to over 2,000,000 and would probably have been more but for the guaranteed week. So unorganized and panicky was the Minister's decision that the whole of the weekly press was stopped for two weeks—papers such as *The Economist* and the *Spectator* missed being published for the first time in over a century.

The shock of the fuel crisis caused different reactions in different quarters. To opponents of economic planning it was a clear sign that neither was such planning foolproof nor were the planners particularly omniscient. Ministers and their supporters were concerned to find out how such a catastrophe should have been possible if the government machinery was efficient. It was not merely that a breakdown had occurred but it had clearly caught the Government napping—in particular Mr. Shinwell, the then Minister of Fuel and Power, came out of the affair very badly for it was only at the eleventh hour, or even a little later, that he publicly admitted there was a crisis and took special measures. A little comfort might be found in the fact that it had been the coldest winter since 1881–2 and that demand for fuel was high because of full employment. But it was known that some Ministers, particularly Sir Stafford Cripps, had been worried about the increasingly strong possibility of such a crisis for some months previously but could do little or nothing against the entrenched and determined autonomy of the Minister of Fuel and Power. Some asked whether adequate machinery existed for securing the proper distribution of resources to avoid such events in future. Had a proper balance been struck between the export of electric power station equipment and its use for the home market? Could the virtually unlimited sale of electric fires and electric appliances of all kinds be reconciled with the government-restricted and slow growth of electricity generating capacity? If the government machine could not handle the comparatively simple task of reconciling coal supplies and

demand, could it be relied upon to handle more complicated questions of the distribution of resources?

The first *Economic Survey* (Cmd. 7046) was published towards the end of the crisis. It had been in course of preparation for several months and its publication had been announced to the House of Commons in November 1946. Mr. Morrison had then said

> The Government aim to arrange early next year a full-dress Debate in the House on the economic conditions and prospects of the country, ... That Debate will be preceded by a White Paper, and will enable the House to take stock of the national position in the light of a more comprehensive economic survey than has hitherto been made available.[1]

Had there been no fuel crisis the utterances of the *Survey* would undoubtedly have been more readily accepted. As it was, though some found in it a reassurance that the Government had the economic situation well in hand, the critical senses of most people had been heightened and some wondered what the various statements about the future were worth. Moreover, had the fuel crisis, with its bad effects on production and exports, not already upset the forecasts for 1947?

THE SEARCH FOR STRONGER CENTRAL DIRECTION

A three-day debate on the economic situation (including the *Economic Survey*) took place on 10 to 12 March 1947. Opening the debate Sir Stafford Cripps (as President of the Board of Trade) announced two important changes[2] 'on the basis of our experience up to date, in connection with the reorganisation of economic planning'. The most important was the strengthening of the inter-departmental planning arrangements. It was proposed, therefore, to appoint

> a joint planning staff, somewhat on the lines of the procedure that was so successfully developed in the war, as, for example, in the joint war production staff. The main strength of this staff will be departmental planning officers. But it is essential that the staff should work under effective direction from the centre, and it has been decided to make a new appointment of a full-time executive head of the inter-departmental planning staff. The man selected will need to be a man of very special attainments and experience. Each of the departmental planning officers

[1] *H.C. Debates*, 20 Nov. 1946, vol. 430, col. 889.
[2] *H.C. Debates*, 10 Mar. 1947, vol. 434, cols. 69–71.

will have on his staff at least one officer whose duties are so arranged that, while he does not lose contact with his own Department, he can devote a considerable part of his time on the central work of the joint staff. It is contemplated that these assistants will frequently meet together to work as special groups under the staff. Under these arrangements, the head of the organisation will not himself require to have any large staff of his own, but he will need a small, picked staff of persons with programming experience and a small secretariat.

The function of this inter-departmental staff will cover the whole field of forward planning; but they will also be specially concerned with the more immediate task of reviewing the programme for the rest of 1947 in the light of developing conditions, so as to weigh up the calls which that programme makes on productive resources, and to recommend how resources and requirements can best be brought into balance continually. The inter-departmental planning staff will, of course, work in the closest relation with the other central organisations, in particular the Economic Section of the Cabinet office and the Central Statistical Office, both of which have important contributions to make towards economic planning.

He then went on:

The second point concerns the arrangements to ensure the co-operation of industry in the organisation for economic planning. There will, of course, be a very large number of questions on which the Government will need to consult with the representatives of a particular industry or group of industries, apart from problems which affect those industries in the planning of our economic affairs. That will be done, as now, through the Departments primarily concerned. But, over and above these particular questions, there are many wider issues on which His Majesty's Government feel the need of consultation with industry as a whole in regard to economic planning; and they intend to suggest to the various organisations concerned on both sides of industry, that there should be a small board representative of the Government's planning staff and of both sides of industry, which would meet from time to time throughout the year to follow development of the plan.

Events moved rather slowly, showing that these announcements represented decisions reached rather hurriedly in the light of strong current criticism. The name of Sir Edwin Plowden as Chief Planning Officer was not announced until 27 March and the planning staff did not come into being until well into May. The names and functions of the Economic Planning Board were not announced until 7 July 1947.

The Prime Minister's statement about the Chief Planning Officer was in the following terms:[1]

The primary task of the Inter-departmental Planning Staff under the supervision of the Chief Planning Officer will be to develop the long-term plan for the use of the country's manpower and resources. They will also follow through the implications of the survey set out in the White Paper, keeping in touch with all Departments so as to correlate their action under the plan. The approach must essentially be a practical one. Both sides of industry will be kept in contact with the progress of the planning, through the Planning Board which His Majesty's Government intend to establish.

The Chief Planning Officer will work directly under the Lord President and will have access to all Ministers concerned with production matters. I should like here to make plain the scope and nature of the responsibilities of the Chief Planning Officer and the extent of the contribution which planning can make to the solution of our economic difficulties. All decisions on planning policy will be made by the Cabinet and not by the Chief Planning Officer. Responsibility for these decisions must, of course, reside wholly with Ministers. Further, it would of course be a mistake to assume that the present difficulties of under-production can be solved by planning alone. The function of planning is to enable decisions to be reached as to the best allocation of available manpower, materials, services and manufacturing capacity. Planning is in itself no substitute for the increased effort and efficiency which are essential to our national prosperity.

I am glad to announce that Sir Edwin Plowden, who served during the war as Chief Executive in the Ministry of Aircraft Production, has agreed to accept the appointment as Chief Planning Officer on this understanding. I am also glad to announce that Sir Robert Sinclair has agreed to act as industrial consultant to Sir Edwin Plowden in the initial stages. Although he will not be able to give more than part of his time to the work, his experience as chief executive at the Ministry of Production during the war will in this way be available to Sir Edwin Plowden.

The functions of the Economic Planning Board were given later by Mr. Morrison as follows:[2]

The primary task of this body will be to advise His Majesty's Government on the best use of our economic resources, both for the realisation of a long-term plan and for remedial measures against our immediate difficulties.

[1] *H.C. Debates*, 27 Mar. 1947, vol. 435, cols. 1412–13.

[2] *H.C. Debates*, 7 July 1947, vol. 439, col. 1804.

The Chairman of the Board is Sir Edwin Plowden, the Chief Planning Officer, although I may on occasion take the chair myself.

In August 1947 public opinion was alarmed by a further crisis—this time in our balance of payments (the convertibility crisis). Informed opinion had, of course, been worried about this matter for some time and the Government had already taken certain steps. Indeed, it had long been recognized that increasing our exports to a level sufficient to pay for our necessary imports was a first priority. It was given first place both in the White Paper on *Employment Policy* (May 1944) and in the first *Economic Survey*. It was in order to secure time to rebuild our export trade that we had arranged large credits with the governments of Canada and the United States. During 1946 our deficit, though large, was much less than had been estimated during the Washington Loan negotiations. The *Economic Survey* estimated that during 1947 we might have to draw at least £350 million from the Canadian and American credits even should the introduction of convertibility of current sterling in July (in accordance with the terms of the Anglo-American Financial Agreement) prove reasonably successful. On 6 August the Prime Minister gave the House of Commons particulars of the serious deterioration in our international trade position, particularly in terms of dollars, and announced that a new economic plan would have to be drawn up. Imports (particularly food) and home investment would have to be cut and exports increased.

This crisis, coming so soon after the fuel crisis and affecting so widely all aspects of national life, caused a renewal of doubt among the Government's supporters as to the efficacy of the machinery of central economic planning. For some weeks there were rumours of ministerial changes but it was not until 29 September that Mr. Attlee announced that Sir Stafford Cripps would leave the Board of Trade to take up the new post of Minister for Economic Affairs. The new Minister would not have a department but he was to have a small personal staff and was to take over the Central Economic Planning Staff and the Economic Information Unit, and also have the assistance of the Economic Section of the Cabinet Secretariat. The announcement said 'the Prime Minister now needs the assistance of a senior colleague who can give his undivided attention to our economic problems at home and abroad'.[1]

[1] *The Times*, 30 Sept. 1947.

The Rise of the Treasury

Sir Stafford Cripps had by now emerged as the most powerful personality among the Ministers concerned with economic affairs. The main concern of the critics was now with the relations between the Treasury, in the form of the Chancellor the Exchequer (Mr. Dalton), and the new Minister for Economic Affairs. Was fiscal and general financial policy being brought into line with the general needs of economic policy? Had the new Minister any power over the Treasury or was this Department still aloof from economic planning? Those were the kind of questions being asked. There was little time to see how the new arrangement would have worked, for on 13 November Mr. Dalton resigned, following his budget indiscretion, and Sir Stafford Cripps became Chancellor of the Exchequer. The public announcement recorded that he 'will continue to exercise the co-ordinating functions in the economic field with which he has hitherto been charged as Minister for Economic Affairs'.[1] Thus the Treasury became the central economic planning department (in addition of course to its other duties) and retained the position even after Mr. Gaitskell had become Chancellor of the Exchequer upon the resignation of Sir Stafford Cripps on 19 October 1950.

Before turning to the Treasury and the other important economic departments it is necessary to go back a little and bring up to date the main committee structure for economic affairs. As the economic situation deteriorated during the early part of 1947 the Prime Minister had set up a Committee of Ministers to deal with overseas economic policy, leaving home economic policy to be covered by the committee under the Lord President. Upon the appointment of Sir Stafford Cripps as Minister for Economic Affairs, the Lord President lost his economic co-ordinating functions, and both home and overseas economic policy were brought under a new Economic Policy Committee under the chairmanship of the Prime Minister. This was a very small committee composed of a few leading 'super' Ministers, including the Minister for Economic Affairs, the Lord President, and the Chancellor of the Exchequer.

In addition a new Ministerial Committee concerned with production and the day-to-day details of the economic programme was

[1] *The Times*, 14 Nov. 1947.

established under the chairmanship of Sir Stafford Cripps. It was mainly composed of the departmental Ministers directly responsible for trade, agriculture, fuel and power, transport and supplies. These two committees remained in existence for the remainder of the period under review.

The functions of the Treasury and its place in the central government machine have been the subject of much controversy, particularly in recent years. During the period 1940–2 the Treasury was somewhat under a cloud and lost much of its pre-war status. Gradually it reasserted its power and, with the return to peace and a budget and finance accounts nearer to their pre-1939 character, the position of the Chancellor of the Exchequer gained in importance. But, for the first two years of Mr. Attlee's first Administration, the Lord President was the senior co-ordinating Minister for economic policy and planning. Then, for six weeks, it was the Minister for Economic Affairs. Though the Treasury, or, for that matter, the Board of Trade or the Ministry of Labour were not directly subordinate to the co-ordinating Minister, there was certainly the implication that the Treasury was not, for purposes of economic policy, head and shoulders above or very different from the other important economic departments.

With the appointment of Sir Stafford Cripps as Chancellor of the Exchequer, taking with him the co-ordinating functions he had had as Minister for Economic Affairs, the Treasury became the central planning department and alterations were made in its organization. The Chief Planning Officer, the Economic Planning Staff, and the Economic Information Unit, but not the Economic Section, became part of the Treasury. In December 1947 an Economic Secretary was appointed (Mr. Douglas Jay) to assist the Chancellor on the economic planning and policy side of his work leaving the Financial Secretary to assist on the more traditional side.

When Mr. Attlee re-formed his Administration after the election of February 1950, he appointed Mr. Hugh Gaitskell as Minister of State for Economic Affairs to assist the Chancellor of the Exchequer and abolished the junior post of Economic Secretary. Mr. Gaitskell succeeded Sir Stafford Cripps on 19 October 1950, and Mr. John Edwards was appointed to the revived post of Economic Secretary.

The Cabinet Office

This is a convenient place to say a brief word about the place of the Central Statistical Office and the Economic Section. The Central Statistical Office is not a policy-forming body in the sense that it is expected to put forward views about the kind of decisions that should be taken. Moreover, most of the government statistics are collected and analysed by the individual departments. But as a section of the Cabinet Office, independent of departmental policies and views and having a knowledge of the whole range of the statistical information available it has an important part to play in the planning process.

The Economic Section is concerned partly with the appraisal of the current situation and possible future trends, and partly with the formation of economic policy. It is in an unusual position in the general machinery of government in that it is not really part of any departmental hierarchy but its services are generally available to the Cabinet. This may or may not give it an influential position depending on the views that Ministers take of its advice. Much of its influence in this period was exerted at the official level. The Director of the Section was a member of the Steering Committee and of the Economic Planning Board. He also took part in the discussions on all major issues of economic policy, e.g. on devaluation. He and his senior assistants were members of other committees and in some cases a member of his staff acted as part of the secretariat of the committees.

At the ministerial level the Economic Section mainly worked for the Lord President during the time Mr. Morrison was responsible for economic co-ordination. After this any views which the Section had on major matters of economic policy were presented to either the Prime Minister or the Chancellor of the Exchequer, or to both.

It is not easy, however, to present a simple picture of the relations between the Economic Section, Treasury, Steering Committee machinery, Economic Planning Board, and the departments. Where questions of major policy are concerned probably the most important work is done outside the formal committee structure by personal discussion and the exchange of views between Ministers and the comparatively small number of senior officials concerned. The Director of the Economic Section was very clearly a member of this small group.

The Departments

It must be appreciated, however, that though the Treasury had by now acquired the leadership in economic policy and control of the co-ordinating machinery, there were two important limits to its power. On the one hand, the Chancellor was but one Minister among the sixteen or so who made up the Cabinet and though by force of personality and responsibility his voice might count for more than any other single voice, after that of the Prime Minister, he could still be overruled by a majority opinion against him. General policy must always be Cabinet policy and not Treasury policy whatever changes are made in Treasury organization and functions.

On the other hand, the main controls and the direct administration of economic matters must remain largely in the hands of the various departments. The following is a simplified statement of the functions of the main departments concerned with economic affairs as at 1 April 1951.

Civil Service Non-Industrial Staff at 1 April 1951

Department	*Concerned with*	*Number employed*
Treasury	Central economic planning; taxation; budgetary and monetary policy; balance of payments; investment; control of expenditure and of the civil service	1,639
Admiralty	Navy, shipbuilding and ship repairing	30,777
Agriculture	Agriculture and fisheries	15,276
Food	Food imports, food rationing, and food manufacture; animal feeding stuffs	25,761
Fuel and Power	Coal, electricity, gas, and oil	4,023
Labour	Labour supply, industrial conciliation and labour relations generally, including general policy *re* wages and conditions. Employment exchanges and appointments offices	27,731
Supply	Military supplies and government dealings with the aircraft, engin-	

	eering, iron and steel, metal and radio industries; atomic energy	34,367
Trade	External trade relations; location of industry; retail price control; distribution of consumer goods; insurance; company law; supplies of certain raw materials[1]; government dealings with the textile and certain other industries	9,973
Transport	Shipping, docks, inland transport, roads	6,240
Works	Building and civil engineering and most building materials	16,233

In addition many departments, not obviously concerned with economic affairs, have an important part to play. The Minister of Local Government and Planning,[2] for example, is responsible for the housing programme and for local finance, including the control of borrowing by local authorities. The Colonial Office has important responsibilities for developing the resources of the Colonies.

Many easy generalizations are made about the distinction between policy and administration and sometimes a picture is presented of an economic plan being drawn up by a central staff and then handed to the departments to carry out. But all the experience shows that the departments are bound to have a very important role not merely in administration but also in the formation of policy. Indeed, it could be said that in the long run no plan can be better than the calibre of the departmental administration. A department must inevitably possess more expert knowledge in the matters falling within its field and also be in much closer touch with the industrial or other organizations in that field than can any small central staff. Therefore, in the first instance the central staff, whether they be in the Treasury or elsewhere, must rely a great deal on the department's appreciation of the prospects within its field. For example, there can hardly but be a predisposition in favour of accepting the views of the Ministry of Fuel and Power

[1] A Ministry of Materials was established in June 1951 and took over the function of the Board of Trade and also that part of the work of the Ministry of Supply concerned with supplies of metals, except iron and steel.

[2] Renamed the Minister of Housing and Local Government at the end of October 1951.

as to the likely supplies of coal over the coming year. The Minister and his senior officials will have talked to the National Coal Board, the miners' leaders and others concerned, and if the central planners are not to do everybody's job over again they must accept the Minister's judgement unless they can show very strong reasons to the contrary. If the department cannot be trusted the only sound solution is to change its Minister and if necessary some of its officials—not to try and do its job.

But, of course, planning is not just the tabulation of a series of estimates. It is likely to involve decisions requiring action, for example, to secure an increase in the production of home-grown food or coal. Here again the departments are likely to have a dominating influence. The planning staff may say that we ought to have 220 million tons of coal if rising home demand and exports are to be met and Ministers may agree, but the translation of this target into fact will very largely depend on the Ministry of Fuel and Power and the National Coal Board. The same is true of agricultural production, housing, exports, or most of the innumerable items in the *Economic Survey*.

A quick glance at the numbers of economists and statisticians employed in the central staff adds point to the comment. During the whole of this period there were never more than fifteen people graded as economists in the Economic Section and fifteen graded as statisticians in the Central Statistical Office. For much of the time the numbers were smaller than this. The numbers include the Director at one end and the newest juniors at the other. It must be remembered that these two groups have many functions not directly concerned with economic planning, for example, the C.S.O. is responsible for preparing for publication a Monthly and an Annual Statistical Digest and plays a major part in certain other periodical publications. Moreover, it was not uncommon for one or more of the senior staff to be away from London attending some International Conference. Owing to the return of most of the war-time recruits to the universities and the difficulty of finding recruits of comparable status the number of economists employed in the government service during this period was much lower than during the war. There were between twenty-five and thirty people employed in the Economic Planning Division most of whom were in the upper levels of the Administrative class.

The Process

It is now convenient to describe in simple terms how what may be termed the planning process has been conceived as working during this period. The main features of planning are looking ahead, deciding what one wants, and, if possible, trying to arrange that what happens is what one wants to happen or, if that is not possible, securing that what is bound to happen does so with the least harmful consequences: in other words—objectives, foresight, and purposeful action. The individual can plan a motoring holiday, deciding in advance the route, places to stay, and so on. He can plan it in considerable detail, booking all his hotels in advance, &c., or he can leave many of the details to be settled as he goes along, fixing only the general direction and the time of his return. And though he may desire warm dry weather he may have to take a raincoat and warm garments in anticipation of cold wet weather.

One can look ahead over any period from a day or so to several decades or more. The individual may be concerned with planning a week's holiday or with looking ahead a number of years so as to provide means to support him when he retires. Government economic planning has, because of the Russian example, come to be associated with a five-year period. The British Government has, however, mainly stuck to one year in its public forecasts[1]—that is, the *Economic Survey* has been published for each year though there may have been longer period considerations in mind.

The first step, in fact probably the main step, is the statistical appreciation of the main elements in the situation. In other words: assuming the continuation of present policies but allowing for any new factors in the situation, what are likely to be the figures for the coming year, what will be the total labour force and its broad distribution, the likely output of coal, agriculture, iron and steel, and of other major industries; the volume of imports and exports; the pattern of national expenditure; and so on?

The statistical picture so assembled is really composed of a large number of sectional pictures. Perhaps a series of jigsaw puzzles would be a truer analogy. For the figures cannot be judged in isolation but only in relation to each other.

[1] The *Economic Surveys* contain some, but very few references to a period longer than one year. But late in 1948 the Government submitted a Four-Year Plan (or Long-Term Programme) to O.E.E.C. There are references to this document in the 1949 *Survey* but not in the *Surveys* for 1950 and 1951. The Four-Year Plan of O.E.E.C. was prepared at the request of the Americans.

Many of the figures will be found not to make sense either in relation to other figures or to the situation as a whole. Estimates showing important increases in production in certain major industries, e.g. iron and steel or building, may not square with estimates showing that imports of iron ore and timber are likely to be lower. Estimates showing increases in the prices of imports may throw doubt on the estimated trend of export prices or on the country's ability to maintain its consumption at the level estimated. There may well be important new factors to be allowed for and their effect worked out as accurately as possible or just guessed. And there must be consistency in all these 'guesstimates' and adjustments. If, for example, in face of a stable labour force a decision is taken to increase the numbers in the armed forces there may have to be some assumptions about both an increase of labour in certain armament industries and a decrease of labour in many other industries. This may well mean a reduction in the goods available for non-military purposes which in turn may imply a fall in exports, or cuts in home consumption, or a running down of stocks, or all three. Cuts in home consumption, assuming total available money incomes remain the same, must imply one or more of the following: greater voluntary saving, an anti-inflationary fiscal policy, rising prices (and perhaps wages). Whatever the implication (or policy followed) the various sets of figures must be reasonably consistent.

One department or another is responsible for every aspect of the country's economic affairs. This does not mean that each department's powers in respect of the aspect for which it is responsible are the same. But each aspect has a departmental sponsor. In this way the individual estimates are in the first instance provided by the some twenty odd departments. It is the job of the Ministry of Agriculture to estimate the output of the different agricultural products, that of the Ministry of Works the output of the building industry, and so on. It is also the job of individual departments to estimate the claims of the interests they sponsor against those resources.

Many of the figures put in by the departments will not square with other figures or with the appraisal of the total situation made by the central staff. Certainly at this stage, and probably earlier, inter-departmental discussions will take place. Some of the more important of these discussions have been formalized into a regular

committee machinery (see earlier at p. 341). Thus the group concerned with Capital Investment tries to get agreement on the make-up of the coming year's investment programme. National income and other estimates, some in terms of real resources, and existing ministerial decisions will have indicated the total likely to be possible; the departmental estimates indicate the likely claims (i.e. the investment likely to be undertaken by the industries and bodies which they sponsor); and what may be termed a trial balance is struck. During recent years this has shown an excess of demand for investment, and decisions have then to be taken as to how the two sides are to be brought into balance. The same kind of problem is likely to arise on a consideration of manpower, raw materials, and imports in relation to the balance of payments.

Some of the adjustments required will be made without much fuss and bother. Departments, seeing the congested state of the investment programme, are likely to scrutinize their own sponsored projects more carefully. Existing Cabinet decisions or firm policy commitments—e.g. the number of houses to be built or the size of the armed forces—will indicate certain priorities. As a result of these adjustments the various sets of figures will come more nearly into balance and many inconsistencies will be eliminated. But there may well be some important gaps and discrepancies which cannot be resolved at the 'sorting out' level by voluntary agreement between departments. Big issues of this kind will come up for consideration in the first instance at the Steering Committee and probably also at the Economic Planning Board.[1] But at some stage the views of the Economic Policy Committee of the Cabinet will be needed and probably of the Cabinet itself, particularly if there is a serious dispute as to which course of action should be taken. Thus a decision to increase the size and the equipment of the armed forces may well throw a strain on the investment programme and on the balance of payments. To relieve this strain some other national activity will have to be curtailed—should it be

[1] The Economic Planning Board enables the Government to discuss the present and future economic situation with certain leading industrialists and trade unionists. It is not a policy deciding body though its views may from time to time have influenced events. At one time it was meeting twice a month. The two other important consultative bodies are the National Production Advisory Council for Industry (production problems) and the National Joint Advisory Council (industrial relations other than collective bargaining). There are also joint advisory councils covering the main industries.

new housing or new schools or new factories or ordinary consumer goods or new machinery or what? Decisions of this kind possibly involving first-class political issues can be taken only by Ministers and, in some cases, only by the Cabinet. As a result of all these processes the Government has published its *Economic Survey* usually late in March and usually for the year ending December. In other words about a quarter of the year has already elapsed before publication. Perhaps it should be added that the process is continuous and that the publication of a *Survey* is not by any means the sole purpose of the exercise.

In so far as the picture just presented appears to imply the existence of a plan of intricate pattern but of mathematical accuracy with thousands of statistics fitting into each other in some completely controlled manner, it is misleading. Though some Ministers may have started with such a picture in mind the system adopted during 1948–51 was simpler, with the main emphasis on attempting to keep a general control at a few key points.

There are some who would throw doubt on whether the Government ever had an economic plan in the sense of a completely consistent set of detailed objectives. Certainly the language used in the *Surveys* tended to get more cautious and tentative each year. Thus the first *Survey* contained a table showing the distribution of manpower between the eleven main industries or categories of employment. The table was introduced by the words 'This is neither an ideal distribution nor a forecast of what will happen; it represents the approximate distribution which is needed to carry out the objectives in paragraph 118[1] and which the Government considers can be achieved if the nation as a whole sets itself to achieve them.' The 1948 *Survey* contained an even more detailed analysis of the distribution at the end of the year and referred to the table as a 'tentative budget of the industrial population for 1948', and a somewhat similar table was included in the 1949 and 1950 *Surveys*. But in the 1950 *Survey* the figures are said to be a forecast 'not of the requirements of the industries listed, but of the changes in the distribution of the working population which it is expected will take place'. The 1951 *Survey* contained no such table and gave only the estimated distribution between the Forces, unemployed, and those in civil employment.

Moreover, there was an increasing tendency for the *Survey* to

[1] Para. 118 set out a balanced series of objectives for 1947.

be a review of the past year with some general reflections on the problems to be faced in the future. Well over half the paragraphs in the 1951 *Survey* are concerned with happenings in the past year or so or with a discussion of the 'prospects' for the coming year. For the most part it reads more like the articles written by financial or economic journalists which have appeared in the Press long before there was serious talk of economic planning. To quote: 'The employment problems of rearmament cannot be considered in isolation. Much will depend on how successfully pressure of civil demand is kept in check. Much also will depend upon the extent of raw material shortages and the measures taken to reduce their impact on essential work' (para. 34). And again 'Because of the major uncertainties both as to movements in prices and availability of supplies, this figure can only be a very rough indication of the probable size of the import bill. If we fail to get the supplies, the actual figure may fall short of £3,200 million, but in that event the consequences, particularly for our production effort, might be very serious' (para. 97).

It may be said with some justification that 1951 was particularly difficult because the economy not only of this country but of the world was being upset and a major element of uncertainty introduced by the Korean War and the rearmament programme. But the change in approach had been taking place in earlier *Surveys*. At no time were they labelled an Economic Plan and the Government were usually careful to talk of forecasts or objectives.

The reasons for this are several. First, the events taking place at the time of the first *Survey* undoubtedly shook the faith of many of those within Whitehall who thought that the Government could achieve a plan. The fuel crisis was a severe blow to the 1947 *Survey* and the convertibility crisis further upset the chances of achieving the results specified. The need to devalue the pound in September 1949 and other major events not allowed for in the *Surveys* caused Ministers and their advisers to strike an increasingly cautious note. Second, there were the difficulties found in forecasting even the main figures accurately and the possibly serious consequences of a wrong estimate.

These difficulties were of two kinds: first, most of the figures proved very difficult to estimate precisely. For example, what would be the precise increase in productivity; would it be 1 per cent., 2 per cent., 3 per cent., or what? The choice of the wrong per

centage might mean a large sum in the total output figures and thus upset a large number of other forecasts and decisions. Again, what would be the precise demand for our exports or the precise effect of devaluation or what would be the yield of the harvest and so on? Second, it quite early came to be appreciated that the Government had little or no means to bring about some of the changes involved in its forecasts. Let us take the coal industry, a key industry and one which figured in all the *Surveys*. The difference between target (or forecast) and the actual manpower and output were as follows:

Coal Industry

Manpower at end of	*1947*	*1948*	*1949**	*1950*
Forecast . .	770,000	790,000	798,000	745,000
Actual . .	758,000	788,000	771,000	762,000

* Basis of figures changed between 1948 and 1949.

Output for year	*Million tons*	*Million tons*	*Million tons*	*Million tons*
Forecast .	200	211	215–20	218–23
Actual . .	197·4	208·4	215·1	216·3

In looking at these figures it should be remembered that the 'forecast' was made after the year had started (and was not a long-distance forecast) and that, certainly in the later years, it was an estimate of what was expected, not of what was considered to be necessary. It will be recalled that the Government estimated that had there been another 2 million tons of coal in stock in February 1947 there need not have been a fuel crisis. This 2 million tons was about 1 per cent. of annual output—a small margin—yet as a result the country suffered a serious loss of production and exports.

As for the distribution of manpower the only speedy way this could have been achieved would have been by ruthless government direction—if, for example, building labourers or surplus civil servants could have been directed without question by the Ministry of Labour into the coal-mines. It was very difficult to do anything like this even in war-time. In peace-time public opinion would not accept the direction of labour. The Government had to rely on exhortation, on the persuasion of the employment exchanges, and on wage differentials. This point was stressed in the 1947 *Survey* when a contrast was drawn between totalitarian and democratic

planning. 'The former . . . uses various methods of compulsion upon the individual which deprive him of the freedom of choice. . . . A democratic Government must . . . conduct its economic planning in a manner which preserves the maximum possible freedom of choice to the individual citizen' (para. 8).

It would therefore be wrong to say that Britain had an economic plan during the period, if by economic plan is meant a set of economic objectives, integrated and consistent in their assumptions, which the Government had decided to carry out and which they had the power to carry out. It would, of course, have been remarkable if the Government had been able to do such a thing successfully, for the whole thing was bound to be experimental. True, there was the experience of war-time, but now there were several important differences. Then there was no balance of payments problem (after the introduction of Lend-Lease) and we could act almost as with a closed economy. Then the people would accept labour direction and all kinds of restrictions on their freedom in the interests of national safety. Then the main objective was simple and accepted—winning the war. And finally, then it was seldom possible to find whether the Government's actions and decisions were successful or not—so much was covered by Official Secrets, so much could be explained away by the exigencies of war.

Nevertheless, there was a consistent attempt to control the main trend of the national economy. From the time when Sir Stafford Cripps became Chancellor of the Exchequer the attention of the Treasury was mainly focused on the prevention of inflation and the permanent solution of the balance of payments problem. Several powerful devices were available to control inflation. There was the budget and there was the limitation of investment by way of the system of building licences and the control of the capital expenditure of local authorities and of the boards of the nationalized industries. The consequential limitation of home consumption would allow exports to expand and imports could be restrained by way of import licences and government bulk buying in accordance with an agreed import programme. Special attention would need to be paid to a limited number of specific problems, e.g. coal, electricity supply, but it was appreciated that administrative devices were not available to achieve a redistribution of physical resources in any detail. Something could be done here but the extent and the speed of change depended on the willing co-operation of

industrial and trade union leaders and of the public generally. The Economic Planning Board, the Advisory Councils, and the *Economic Survey*[1] were largely part of a process of securing such co-operation.

This conception of economic planning, with its emphasis on a very small number of key controls of a general character, had increasing support from all quarters during this period. It avoids some, but by no means all, of the difficulties encountered in administration of the more detailed form. Whether it is a feasible conception in an economic system in which there are as many, if not more, jobs than men still remains to be seen.

The period 1946–51 was therefore a period of experiment during which much had to be learnt. Whitehall went through various phases—which might be labelled: complacency, consternation, confidence, tiredness, and, as rearmament developed, doggedness. The mistakes of the post-1918 period were not repeated. Instead of the short boom and the long slump with all its resultant misery we had, to use the phrase of the *Employment Policy* White Paper, a period of 'high and stable employment', probably the longest such period in our industrial history. By the end of 1950 even our balance of payments problem seemed to be almost solved. Then world rearmament and other factors caused a new crisis to develop during 1951.

Some Conclusions

This, however, is not the place to review the achievements and failures of British economic policy. Here we are concerned with the machinery of government. What conclusions may be drawn here? First, there ought to be a strong warning against expecting too much from any particular form of government organization. It is a simple-minded approach to expect good government planning and policy to spring spontaneously from the right Cabinet

[1] The *Economic Survey* for 1948 contained an Appendix which examined the degree to which the objectives set out in the *Survey* of 1947 had been fulfilled. It concluded 'Perhaps the outstanding lesson of the experiment hitherto made in democratic planning in this country, apart from the limitations imposed by dependence on foreign trade, is the importance of the voluntary co-operation of the individual with the plan set by the central authorities. . . . For that reason, the Government regards it as essential to the whole conception and success of an economic plan . . . that there should be the widest possible understanding of the facts of the situation and the targets laid down.'

Committee structure or from having a chief official with a particular title. As for 'planning', no rearrangement of committees and departmental responsibilities can overcome the statistical and other difficulties inherent in fixing targets or forecasting output. As for policy, it is the wisdom and courage of those whose decisions are final which decide the success or failure. Statisticians may provide the data, experts may advise, but in the end a very great deal depends on the personality of the chief Ministers and on public understanding. Proper organization can be of great assistance, but it is an ingredient and not the main ingredient in the economic planning pudding.

Second, an economic policy which implies that the Government is responsible for virtually everything which happens places an impossible burden on the Whitehall machine. It is true that the period 1946–51 was very difficult but was it very much more so than any five-year period between 1918–39? The fact is that any kind of detailed plan involves the Government in a very large number of decisions, small and large. Moreover, the emphasis on co-ordination and on some central plan or survey places a special burden on the central staff, including the Treasury should that be the main department concerned. If events are moving slowly and if one problem can be dealt with at a time, if public criticism can be stifled or allayed, then the central few might be able to do the job. But during 1946–51 the most successful Minister in this field, Sir Stafford Cripps, nearly killed himself by overwork and had to resign, and many of the leading people concerned, Ministers and officials, finished up worn out and much less fit than when they started. In some part this was due to the fact that the Government —valiantly or stupidly according to one's point of view—attempted too much. At the time of the 1947 fuel crisis, for example, a great deal of the time of the Minister of Fuel and Power was being absorbed by steering the long and intricate Electricity nationalization Bill through the House of Commons. Even allowing for the large legislative programme it would still be true to say that the government machine was very heavily loaded, particularly the Ministers and officials concerned with central policy. Here is a dilemma not yet resolved. The more one tries to co-ordinate everything and fit the economic details into a single plan the more one puts an impossible load on the central machinery. On the other hand, the more one pushes off the decisions and detail on to the

departments and other bodies the less the chance that the details will fit together.

Third, though the right Cabinet decisions are very important, it is equally, if not more, important to obtain the active co-operation of the public and in particular of both sides of industry. The co-operation needed is something much more than mere approval or acceptance of decisions taken centrally; it involves a willingness to suit one's actions to the avoidance of the economic ills and to the achievement of the objectives indicated by the Government. This was probably the major value of the *Economic Survey* and also accounted for the establishment of the Economic Information Unit and the Economic Planning Board. The restraint of the trade unions in pressing for higher wages and the efforts of the employers to push exports in particular markets were a response to a Government lead in the light of the needs of the economic situation.

Fourth, the position of the Treasury, though paramount at the end of the period, was not necessarily for the best. True, budgetary and monetary policy are a major element in any economic policy, but so are the handling of manpower, raw materials, and exports. The Chancellor of the Exchequer has many departmental duties which have no more direct bearing on the direction of economic policy than the duties of many other Ministers. If he does not neglect these and is also responsible for co-ordinating economic policy, he may well be faced with a superhuman task. There may be some who will be able to manage both jobs but it sets an extremely high standard and many may fall down and neglect one side or the other. The experience covered in this chapter is too short to reveal the ideal position of the Treasury in the central planning machinery.

At the same time the experience of 1945–7 shows that something stronger than the normal inter-departmental machinery of co-ordination is necessary if a clear national economic policy is to be decided and put across. The danger of the Inter-Departmental Committee is that it may over-emphasize the need to secure agreement between departments and so a compromise policy may result. In very difficult times, when decisions affecting strongly entrenched interests or ideas may have to be taken, a policy of compromise may well give the worst of both worlds. If the Prime Minister cannot give a major part of his time to economic policy—and in recent years he has tended to be pre-occupied with defence and

foreign affairs—then either a senior non-departmental Minister, with some such title as Minister for Economic Affairs, or the Chancellor of the Exchequer, will have to be given the major public responsibility for taking the lead in formulating an economic policy.

PART IV
THE SOCIAL SERVICES
CHAPTER XVI
THE SOCIAL SERVICES

By ASA BRIGGS

THE role of the social services in Great Britain has changed completely as 'the night watchman state' has given way to what is now generally called 'the welfare state'. The change has not been a sudden one since 1945 nor has it eliminated the necessity for continued voluntary action, which acted as the main lever of social conscience in the nineteenth century. In the early nineteenth century itself many writers recognized theoretical and practical limits to *laissez-faire* and urged that Government had to step in to prevent the market from usurping the whole of the functions of society. Towards the end of the century a change in the attitude towards poverty and a deeper understanding of the economic causes underlying its most common manifestations were reflected in the emergence of social theories and policies, which set out to secure for each individual a prescribed minimum of the requisites for efficient parenthood and citizenship and to oblige the state to make provision, through organization and limited subsidization, against individual contingencies of sickness, widowhood, orphanhood, old age, and unemployment. Changing attitudes affected legislation to an increasing extent as the right to the vote was won by new sections of the population and franchise politics gave way to social politics.

During the twentieth century the earlier trend towards the emergence of a new type of state, actively concerned with the development of social services, has been pushed farther both in theory and practice. To the charitable urge to help the needy, the social urge to guarantee minimum standards and the democratic urge to reduce inequalities has been added the administrative urge to secure co-ordination and comprehensiveness. The belief of the pioneers of the public social services, that it was only necessary for the state to intervene to assist the poor, has given way to the view that it is a proper function of government to ward off strains and

stresses among all classes of society. War-time experiences, which have left a deep imprint on social policy, have encouraged tendencies towards completeness and consistency. As the White Paper on *Social Insurance* stated in 1944, 'the scheme as a whole will embrace, not certain occupations and income groups, but the entire population. Concrete expression is thus given to the solidarity and unity of the nation, which in war have been its bulwarks against aggression and in peace will be its guarantees of success in the fight against individual want and mischance.'[1] The urge towards comprehensiveness was backed by social economists who pointed out that national schemes secured economies in the overheads of management, and by administrators, who wished to avoid a plethora of exceptions.

The broadening of the functions of the state has almost acquired the character of an obligation. New claims have been staked and new rights asserted. 'If we speak of democracy,' wrote *The Times* in the turmoil of 1940, 'we do not mean a democracy which maintains the right to vote but forgets the right to work and the right to live.'[2] After experience of mass unemployment and total war, social crises which the single individual or family cannot control, citizens expect the state to guarantee social rights in the same way in which it guaranteed newly formulated civil and political rights in the past. This was certainly the mood when the social services were reshaped after 1945.

The boundaries of social service policy since 1945 have been determined, however, less by moods or by theories than by generally recognized needs. There were gaps in the pre-war social services, for they had grown up without unity or symmetry, with overlapping both of administration and objectives, and it was impossible to discern behind them any grand design. There were four types of service—constructive community services, like education; social insurance schemes, like national health; social assistance services, like non-contributory old-age pensions; and subsidized consumption services, as in the case of certain types of housing. The gaps were obvious. The services only applied to a section of the community, between 20 and 25 million people at most. They did not

[1] Cmd. 6550, 1944, § 8. Cf. § 33, 'Why the Scheme is Universal.' 'In a matter so fundamental it is right for all citizens to stand in together, without exclusions based upon differences of status, function or wealth.'

[2] *The Times*, 1 July 1940.

provide what have subsequently come to be regarded as essential elements in a social services policy—family allowances, for example, essential when the wage-system does not take into account family needs. They were riddled with anomalies. While, for instance, weekly incomes were paid to the unemployed which took into account size of families, flat rates were paid to the sick without any provision for dependants. Even for those who were sick, different 'approved societies' would pay different benefits in return for the same basic weekly contributions. 'The time has clearly come', it was stated in the introduction to an influential report of 1943, 'when we should re-cast the whole range of services, bring them up to date, infuse them with modern doctrines, organize them on consistent principles, place them in a definite relationship with one another, integrate the machinery of central and local administration, and inform the entire system with constructive ideas.'[1] The fact that this report was in substantial agreement with the *Beveridge Report on Social Insurance*[2] made W. A. Robson go so far as to claim that 'if persons with qualified and trained minds will apply themselves in a disinterested manner to a great social problem of this kind, the proper principles will emerge so unmistakably that the right solution will cease to be a matter of mere opinion and become a question of scientific knowledge. It implies the beginning of a new outlook in the Social Sciences.' The story of the subsequent framing of legislation has raised somewhat different considerations, but the claim was expressive of the mood.

It was during the war that social investigation diverted attention from the administrative boundaries, which had divided the social services before the war, to four specific fields of future action—education, health, social security, and housing. The elimination of a fifth field of action—unemployment relief—was pre-supposed. Suitably financed social security could contribute to full employment, it was believed, if the need should arise, but a full-employment policy was to be the *sine qua non* of post-war social advance. The third assumption of the Beveridge Social Security Plan was the avoidance of mass unemployment. The Government accepted this condition when it adopted the White Paper on *Employment Policy* in 1944.[3] As Arthur Greenwood put it, 'the first line of attack must be a full employment policy, for without the production of wealth

[1] *Social Security*, edited W. A. Robson (1943).
[2] Cmd. 6404 (1942).
[3] Cmd. 6527 (1944).

there will be large scale unemployment and its consequences, and without it we cannot sustain a proper standard of life for our people—not even for those at work, and certainly not for those who are in difficulty and in awkward circumstances'.[1] The language of challenge was perfected by Beveridge, who spoke of five giants, blocking 'the road to re-construction'—Want, Disease, Ignorance, Squalor, and Idleness. Once Idleness had been encountered on his own, the citizen's progress was straightforward if not easy.

The two main sets of difficulties lay in the drafting of comprehensive legislation and in the creation of efficient and wise administration. Drafting ambitious measures to cover education, health and social security, was difficult, even if there were to be little general controversy, for in each field of action special interests were involved, often highly organized, articulate and rooted in tradition. Before proposals could even be outlined, settlements had to be reached with and between contending and often conflicting interests, particularly the entrenched and indispensable professional organizations. The Education Act of 1944, which prepared the way for a national system of secondary education, was the product of compromise between schools, educational authorities, professional associations, and religious groups. The National Health Service Act of 1946 involved lengthy discussion and bargaining between Government, local authorities, hospitals, doctors, and dentists, the contentious issues sometimes being fought out in a bitter atmosphere. The National Insurance Act of 1946, the primary purpose of which was the consolidation of all existing legislation covering the more common types of social insurance, abolished the system of approved insurance societies which had been set up under the National Health Insurance Act of 1911, but stopped short at the boundary lines which separated poverty, ill health, and old-age insurance from other types of insurance and the approved societies from the friendly societies.[2] As far as housing policy is concerned the Minister of Health under the Housing Acts of 1946 and 1949 has had to work through a tangled network of local authorities which themselves directed relations with private builders. There was no general reform of local government after

[1] *Hansard*, vol. 419, col. 99.

[2] The other major Act of Parliament which provided the basis of the new system of social security was the National Insurance (Industrial Injuries) Act of 1946. Three other Acts, the Family Allowances Act of 1945, the National Assistance Act of 1948, and the Children Act of 1948 completed the system.

1945, which might have had an important effect not only on housing programmes, but also on the reform of the hospital service and of schools.

The creation of wise and efficient administration was the main problem once the Acts of Parliament had been passed. Much that could not be dealt with directly by legislation was left over to administration. The Education Act of 1944 provided nothing more than an outline, a statutory warrant for a more comprehensive set of measures than any educational authority would be likely to be able to carry out for a long time to come. Although the new Ministry of Education became more of an executive and less of an advisory body in its relations with the local educational authorities, continued educational progress and the implementation of the ideals of the Act depended to a large extent on its interpretation on the spot. The National Health Act of 1946 introduced many apparent ambiguities and left many of its details undefined, because, as the Minister said, a successful national health service depended not upon the 'strait jacket of a statute' but upon a sensible administration within the regions. Prediction of future problems was difficult in 1946, and it was for this reason rather than for the desire to set up a centralized organization that the Minister was given wide powers on paper by the new Act. Although the Ministry of National Insurance, brought into being on 5 July 1948, recruited experienced personnel from earlier insurance departments, a wide range of discretion was granted to the new Minister to enable him to meet unforeseen contingencies. Finally, as far as housing was concerned, although the Ministry of Health acted as controlling, subsidizing, and planning agency, the responsibility for local housing progress depended in practice upon the energy and initiative of local authorities.

The social and economic atmosphere in which the new administrations have evolved has been, as was anticipated and planned, one of full employment. Full employment, however, has raised inevitable problems in their effective development. Little attention was paid in 1945 to the costs of social services, but in a fully employed economy all expenditure on social services has had to be considered subsequently in the light of alternative forms of expenditure and investment. Socially desirable objectives, particularly social investment like the improvement of hospital services, have often had to be held back. The Regional Hospital Boards, for

instance, were not allowed to carry forward unexpended balances, even when they had not been allowed to develop their services because of a shortage of materials. They were sometimes led in consequence to turn to minor capital works which were physically possible, though they had no social priority. To the shortage of hospital space and class-rooms has been added a shortage of teachers, doctors, nurses, and, above all, of the right type of administrative officials at the lowest levels, who are capable of evolving a scheme of social administration, which will be human as well as efficient.

The advance in social welfare in a period of full employment and rising prices has raised two important questions—first, the relative needs of the different social services, the question of priorities, a question which is being settled by the cumulative play of many different forces rather than by conscious design; and second, the question of the total cost of the social services in relation to other forms of government outlay. The second question has received more attention than the first, for it is the absolute scale on which advances in social welfare have been made that has 'brought to the surface fundamental problems, which were less obvious when the services were fewer and far less comprehensive'.[1]

The money outlay on the social services increased about four times between 1938 and 1949, while the amount spent on defence, war pensions, and debt interest almost doubled. In 1949–50 the cost of the social services in Great Britain amounted to about £1,800 million, 17·5 per cent. of the national income. The services provided differ in kind and in influence. There is indeed no generally accepted definition of social services, although they can be classified according to various criteria—cash or in kind, with or without means test, and 'assistance' or 'insurance'. Much of the spending of public authorities is merely a substitute for spending which would have been undertaken by voluntary bodies or by private individuals in previous periods of history, when it would have been classified differently, much of it under personal consumption. Of present public spending on the social services, some spending—that on education and health services—leads to direct demands for goods and services, the rest represents transfer pay-

[1] R. M. Titmuss, 'Social Administration in a Changing Society', *The British Journal of Sociology*, vol. ii, no. 3, Sept. 1951. See also *The Times*, 'Crisis in the Welfare State', 25 and 26 February 1952.

ments. One item in national spending—food subsidies—has often been regarded as of a special character, but although food subsidies were introduced originally in 1940 as an emergency measure for the purpose of imposing a restraint on wage movements, they have come to be regarded by many commentators since as an integral part of a system of welfare, and can conveniently be examined in this context.

Most of the social services outlined above are used by all sections of the community. About 95 per cent. of the 50 million population of the United Kingdom, for instance, is using the Health Service, and between 90 and 95 per cent. of general practitioners, over 90 per cent. of dentists, and almost all chemists are taking part. At the end of 1950 family allowances were being paid to more than 3 million families in respect of 4,700,000 children. Between 85 and 90 per cent. of school children are at present taking school milk and each receives one-third of a pint daily, free of charge. Some social services, like higher education, have probably been a greater aid to the middle-income groups than to other sections of the community. When in 1900 a total of £36 million was spent by the state on social services, the sum was a direct transfer from rich to poor. The range, the quality, and the total cost of modern social services mean that this is no longer the case. As a recent writer has put it,

> class abatement is still the aim of social rights, but it has acquired a new meaning. It is no longer merely an attempt to abate the obvious nuisance of destitution in the lowest ranks of society. It has assumed the guise of action modifying the whole pattern of social inequality. It is no longer content to raise the floor-level in the basement of the social edifice, leaving the superstructure as it was. It has begun to remodel the whole building, and it might even end by converting a sky-scraper into a bungalow.[1]

It is impossible to discuss the social services without examining them in the light of social as well as economic criteria—the effect of the health scheme, for instance, on infant mortality or the relative claims in policy-making of equality of status and equality of income. In their social survey of York in 1950, Rowntree and Lavers showed not only the extent to which poverty had been reduced by welfare measures, including particular measures such as food subsidies and family allowances, but also the positive as opposed to the safeguarding results of the welfare state. Figures of the heights

[1] T. H. Marshall, *Citizenship and Social Class*, 1950, p. 47.

and weights of school children in 1936 and 1950 showed that, on the average, children in all sections of the population were taller and heavier than they were in 1936, and that differences between the different income groups, while they still remained, were smaller than they had been in 1936.[1] Such statistical studies reveal the social implications of national policy.

Certain broad economic questions have received more widespread attention than the facts of the silent social revolution. The first is extremely broad. Does the high taxation necessary to cover social services lessen incentives and so put a brake on production? In attempting to 'maximize welfare' is the Government not in danger of preventing the maximization of the national income? The second is less broad and more amenable to examination. Because taxation imposed on the lower-income groups has increased so greatly since 1939, may it not be that the total paid in taxation by these groups is greater than the social benefits received? If the budget is to be used as a device to redistribute incomes, is not the way to do this in the future not to increase social service benefits but to reduce taxation on lower income groups, thereby saving administrative costs and avoiding the danger of penalizing incentive? The third is not broad but pivotal, but it is more political than economic, and outside the range of this study. Is the expenditure on the social services to be regarded as sacrosanct, or is it to be limited by ceilings on certain items of expenditure and by the abandonment of elements in the new social service structure? This is a question which is being asked more sharply as large-scale alternative claims on national resources arise.

The first question involves a series of other questions, most of them unanswered satisfactorily by social scientists, questions concerning the nature of incentives, the attitude to work, the background of labour mobility, and the relationship between social security and economic progress. Empirical studies of these problems would be more interesting than essays in social theory. In general it seems reasonable to say that for any losses brought about by changes in the extension of the welfare system there are compensating gains in total output, if ill health, bad housing, lack of education, and chronic unemployment can be checked and if possible eliminated. The gains may be long-term in character, although even in the short run, if the increase in social services

[1] B. Seebohm Rowntree and G. R. Laver, *Poverty and the Welfare State*, 1951.

encourages industrial peace and reduces the incidence of strikes, output will rise. The question is a central one in our age. What differentiates economic systems from one another, it has been said, is the character of the motives they invoke to induce people to work, and it is clear that in a new social setting where social services have begun to be accepted alongside a wage system, problems in social behaviour will be settled not by logic but by time, if they are settled at all.[1]

The second question does not demand the same scanning of distant horizons. It was estimated that the total social expenditure for an average family of four in 1949 amounted to 57*s*. a week, including expenditure from local rates and from national insurance funds. The approximate taxes, rates, and social insurance contributions paid by lower-income group families, with a taxable income of under £500— a group covering 80 per cent. of the population —were larger than the whole of current social expenditure, mainly because of the large sum paid in drink and tobacco taxes. It is dangerous and misleading to conceive of taxes as ear-marked for specific purposes—the poor paying for welfare and the rich for defence—but if this estimate were even roughly accurate, a large portion of expenditure on social services was financed not by transfers from the rich to the poor, but by transfers of income within the lower-income groups, in accordance with variations in family size and the pattern of consumption. Social welfare would thus to a large extent take the form of corporate self-help with the Government establishing certain social services as a means of improving social conditions at the expense of other forms of working-class expenditure.[2] W. A. Lewis has made the point clearly with reference to housing subsidies.

If the government simultaneously abolished housing subsidies and cut working class taxation by an amount exactly equal to the subsidies the working classes would be no worse off financially; but they would then without any doubt prefer to spend the money in other ways than on housing, and would live in overcrowded and inadequately provided houses, some because they do not know the advantage of better housing, and others because they value these advantages too lightly in comparison with other ways of spending their money. This is the case, and the only case for housing subsidies.[3]

[1] There is an interesting difference of approach to this problem in L. Robbins, *The Economic Problem in Peace and War*, 1947, pp. 9–28, and T. H. Marshall, op. cit., especially pp. 81–85. [2] See Chapter VIII, 'Fiscal Policy', pp.158–87.
[3] W. A. Lewis, *The Principles of Economic Planning*, 1949, pp. 31–32.

The extent to which individual social services are redistributive between rich and poor depends upon various factors—whether the benefits offered are sectional or universal, whether they take the form of money payments or services in kind, and how they are financed.

The tendencies to extend welfare services to all parts of the community, to improve their quality and to eliminate social dividing lines cut across traditional channels of redistribution. In one case in particular, that of the food subsidies, some economists often argued that they were

> a grossly wasteful form of social service. They subsidize the food consumption of the millionaire with no dependants as well as that of the poorest wage-earner with a large family to support. The money could be used with a far greater impact upon welfare if it were paid out in the form of increased children's allowances, old-age pensions, etc., or used to decrease the burden of income tax on the poorer tax-payers. [The poorest pay no income tax at all. A.B.] It would then be concentrated, in a form which could be used freely for the purchase of all essential commodities (and not only foodstuffs), in the hands of those members of the community most in need of help.[1]

Food subsidies, however, were more than a social service: they were conceived of as a method of maintaining a steady cost of subsistence, and thereby stabilizing a possibly explosive factor in an inflationary situation. So long as the 'ingenious deception' of an unrealistic cost of living index lasted, until June 1947, the food subsidies undoubtedly helped to restrain wage inflation: since 1947 the possibilities of the use of food subsidies to counter inflation have been more limited and less direct, though equally real.[2] The subsidies have also been related, however, by some writers to the maintenance of nutritional minimum standards as itself a criterion of social policy.[3] They survived throughout the post-war period, even though a ceiling was put upon them in 1949, because they had become part of an edifice which it was thought dangerous to dismantle, even partially. There were other social services, too, the benefits of which might have been considered wasteful on economic grounds because they subsidized all sections of the population. Their maintenance might have been defended pre-

[1] J. E. Meade, *Planning and the Price Mechanism*, 1948, p. 41.

[2] See pp. 180–1 for an analysis of the arguments used and the possibilities still open.

[3] See the biannual surveys of a 'human needs' diet, published by T. Schulz in the *Bulletin of the Oxford University Institute of Statistics*.

cisely because they ensured a social equalization between the more and less fortunate at all levels, a general reduction of risk and insecurity not so much between classes as between individuals within a population which was now treated as though it were one class.[1]

The case of housing subsidies is interesting in this connexion. The Housing Act of 1949 omitted from its clauses the phrase 'working classes', which had figured in previous Acts of Parliament. The Government laid down that houses were to be allotted to families strictly on the basis of housing needs, and that the previous policy of transferring one particular section of the population from sub-standard to new houses was to be set on one side. The long-term plan was to bring the entire stock of houses up to the standard at least of those built between the two wars. The annual housing subsidy was small compared with other social service subsidies, but it rises each year as new houses are built. Various suggestions have been made for reforms in methods of assisting families which are unable to afford full rents, including variations in the rents charged to municipal tenants so that only those unable to afford full economic rents would be entitled to graduated rebates. The view that such a change would ensure that the substantial item of social expenditure arising from housing subsidies was distributed in such a way as to give relief where it was needed, while avoiding the waste of paying subsidies where they were unnecessary, raises some of the same issues already raised in the case of food subsidies. The reform, while needing little new legislation would certainly involve a full-scale inquiry into rents and incomes, which would be unpopular with those who wish to dissociate social services from all memories of family means tests. •

There is a difference in the equalizing tendency of social services, according as to whether they are in money or in kind, and if in kind according as to whether the services offered are 'minimum' or 'average' in quality. The tendency to extend services in kind may cause hardships, in a period of limited resources and rising prices, among those needing payments in cash: in some cases, indeed, at the present time the real value of cash payments, such as weekly sickness benefits, is actually lower, in relation to wage levels and purchasing power, than it was in 1911. Even some subsistence needs have had to be met by a marked increase in national assistance.

[1] T. H. Marshall, op. cit., p. 56.

Flat-rate money payments to all sections of the community—such as family allowances—do not reduce the gap between different incomes, but they make a bigger percentage addition to small incomes than to large ones. By contrast payments in kind, such as those for health and education, particularly where the services offered are considered comparable in quality with alternative private services, free a portion of the income of the people in the higher income groups, who otherwise would purchase them privately, while they merely afford the lower income groups with services in kind, which otherwise sometimes would not have been purchased at all. They thereby increase rather than diminish inequalities of disposable personal money income.

The way the social services are financed obviously has an important influence on their redistributive character. Before 1939 a distinction could be drawn between 'insurance' schemes and state-provided benefits, although none of the state insurance schemes were true insurance, 'not because they are all subsidised by the state, but because there is not the same degree of relationship between risk and premium as would satisfy actuarial criteria, and because the liability of premiums and benefits to constant legislative change renders them only superficially the subject of a contractual obligation'.[1] The same basic distinction and the same type of problem exists at the present time. The social insurance scheme differs from the family allowances and national assistance schemes in that insured persons and employers contribute directly towards its costs, but the contributions continue to bear no clear-cut actuarial relationship to benefits. The personal contributions of the insured[2] are best regarded as a poll-tax and the employers' contributions as an indirect tax on consumers. Apart from such contributions, which it was anticipated would amount to 44 per cent. in the first year of the scheme as against only 32 per cent. under the old system,[3] the Exchequer planned to increase its share in the finance of the scheme, until by the time that it was fully

[1] G. Williams, 'Finance of the Social Services', *Social Security*, 1943, p. 226.

[2] There are three classes of insured persons: (1) employed persons, i.e. those who work under a contract of service: (2) self-employed persons, i.e. those who are gainfully employed, but not under contract of service; (3) non-employed persons, i.e. those who are not gainfully employed. The contributions vary accordingly, and also between men and women.

[3] Cmd. 6550, 1944, Appendix I, 'Memorandum by the Government Actuary on the Finance of the Government's Proposals.'

developed in 1978, total benefits would exceed total contributions plus interest income by over 14 per cent. 'The result is a charge on the taxpayer which will gradually increase for a considerable period, as the expenditure on pensions gradually matures, and will last in perpetuity.' The more the social security schemes come to be financed by means of the normal tax mechanism, the more they will reflect its generally progressive character: in the meantime, although insurance is more 'popular' than income-tax, the flat-rate contributions are regressive, and may serve to conceal to the insured person that his 'right' to benefits comes from taxes as well as from contributions.

The National Health Act and the Education Act both provide for expenditure by local authorities as well as Exchequer grants while the National Health Service receives from the National Insurance Fund an annual appropriation in aid which amounted to £40,500,000 in 1949–50. In December 1949 an attempt was made to raise additional revenue to meet the high costs of the National Health Service by chemists' prescription charges to be paid by the sick, and although this policy was never put into practice, the Government in 1951, attempting to place a ceiling on the total costs of the Health Service, imposed a charge on spectacles and dentures. These suggested part payments for benefits received shift the financial foundations of the social service edifice, even although they have been defended on other grounds. Distinctions have, indeed, been made between free services and services free of financial impediments to users. Some advances in the first have been held to constitute a threat to the future of the second.

The controversy surrounding such shifts of emphasis raises the third big question which cannot be discussed fully in this study. Is the expenditure on the social services to be regarded as sacrosanct, or is it to be limited by ceilings and if need be by cuts? It is the sharp rise in rearmament expenditure which has forced this question to the forefront, but it had been raised before 1951 with particular reference to food subsidies and to the rising costs of the National Health Service, which always exceeded estimates. The different possible answers to the question are largely influenced by political considerations, which cannot be separated from economic argument. Four points are clear. First, the use of money ceilings in a period of rising prices cuts the real value of the social services. Second, there is the danger of a resort to national assistance for

normal as well as exceptional cases. Third, since low taxation even for the lower income groups cannot go hand in hand with a costly welfare state, a very high level of taxation will be necessary if the state takes upon itself any other expensive commitments. The greater the amount of relatively fixed government expenditure, which cannot be touched by any Chancellor of the Exchequer, the more restricted will be the freedom of the Government to use the budget as an instrument of general economic policy, and even planned budget surpluses, contrived to counter inflationary dangers, may be swallowed up by unforeseen differences between social service estimates and social service costs. Such considerations do not, of course, apply only to social service expenditure, which it is dangerous to think of as one large undifferentiated whole, but they raise the question of the methods which can be used to prevent expenditure on social services from rising in a period of budgetary retrenchment. The most satisfactory method is to reduce administrative costs, yet over a period of years the development of salary and fixed pension arrangements alone is likely to make for an increased rather than a diminished rigidity. A policy of percentage cuts in particular sections of social service expenditure such as education, falls indiscriminately on a network of highly differentiated local authorities: it by-passes all particular problems of priority by ignoring the existence of the general problem. An alternative policy, where it can be applied, of charging for specific services, already put into practice in the case of the National Health Service, deliberately recognizes a distinction between types of service, although the nature of the distinction is as likely as not to be made on the basis of general considerations of fiscal policy rather than according to criteria of social need. Fourth—and this follows directly from the third point—much improvement in the social services, generally recognized to be necessary as well as desirable, will in any case have to be postponed. For instance the Education Act of 1944 aimed at bringing all primary and secondary schools up to certain desired standards. In post-war circumstances even improvements of amenities at existing schools have been held back. The school leaving age was raised to 15 in April 1947 before proper facilities were available, but the further raising of the school leaving age from 15 to 16 can only be effected after a large-scale building programme to increase still further the number of places in secondary schools. There is little prospect of building large

numbers of new county colleges or nursery schools as part of a programme of social investment. In the case of health services there is little immediate likelihood of building large numbers of health centres, even though the duty of establishing them was laid on local authorities by the National Health Service Act. The National Health Service as a whole raises interesting problems of the choice of lines of action within the service itself—the counter claims, for instance, of hospitals and private patients. The socially desirable is still very far removed from the economically possible.

Granted that this is so, it is impossible to regard the social services at the present time as a finished and perfected system. A legislative framework and an administrative structure are more or less complete and have proved generally acceptable to the main political parties. The signposts to future policy are clearly marked, but the implementation of that policy will take many years to accomplish. The building of a welfare system in an unsettled economy and an uncertain world is at best a precarious enterprise, though the challenge it offers continues to stir people to the task. If the problems of cost dominate the immediate horizon, the long-run problems are problems of social research, of human administration, and of full co-operation between governments, officials, and the public.

It is in this last connexion that the voluntary bodies, which traditionally have helped to organize the social services, still have a large part to play in the future. The services of voluntary and statutory bodies are complementary, not competitive or antagonistic. Between 1911, the passing of the National Health Insurance Act, and 1939, nearly 100 new voluntary bodies concerned with social and economic welfare were formed. Quite apart from pioneer activities, service in fields untouched by the state, and personal service free from all bureaucratic rules and regulations, voluntary social services organized round housing societies, friendly societies, hospital contribution schemes, and adult education are still playing an important part in social advance. Their future depends on willing service as well as money, and on the direct co-operation of the state. Lord Beveridge has suggested, in his *Voluntary Action*, as important a document as any of his other reports, that an eight-point programme is necessary to regulate the relations of voluntary bodies and the state, covering (i) the co-operation of public authorities and voluntary agencies; (ii) a Friendly Societies Act;

(iii) a Royal Commission on Charitable Trusts; (iv) a re-examination of the taxation of voluntary agencies; (v) an inquiry as to the physically handicapped; (vi) a Minister-Guardian of Voluntary Action; (vii) specialized staff training, and (viii) the continuance and extension of public grants to voluntary agencies.[1] Such an eight-point programme, although it has not been accepted as a practical scheme, covers most of the questions likely to arise in the continued partnership of the state and the voluntary bodies.

The active participation of voluntary bodies and the continued service of responsible individuals are essential if the social services are to enrich the life of the community as a whole and not merely to provide benefits in money or kind. The assessment of needs must never be completely divorced from the statement of wants, or the services will begin to be administered in a routine way by bureaucrats and to be accepted in an apathetic way by the public. The mere creation of institutions and the extension of benefits are not in themselves enough: the vitality of the social services system will continue to depend on an active interest in society and a willingness to serve. It will also depend on the capacity to adapt the services themselves in a period of social change. There can be no finality in the structures set up since 1945: they represent the solutions of a reforming generation. As the economic and social framework changes—the age framework, the family framework, the wage framework—welfare commitments will take on a new shape.[2]

[1] See Lord Beveridge, *Voluntary Action*, 1948. The last point is beginning to assume great importance in certain fields. In 1949–50, for instance, the University Grants Committee, first appointed by the Chancellor of the Exchequer in 1919, provided 63·9 per cent. of the income of British universities. It is estimated that the percentage will rise to 73·5 in 1956–7.

[2] Already between 1945 and 1950 there was a tendency for social services to become increasingly concerned with problems of human conduct and relationships. See, for instance, *Report of the Departmental Committee on Grants for the Development of Marriage Guidance*. Cmd. 7566, 1948.

PART V

INDUSTRIAL ORGANIZATION AND POLICIES

CHAPTER XVII

PRODUCTIVITY

By N. H. LEYLAND

BEFORE the war the word productivity was largely confined to academic discussion. Today it is common currency. In higher production is seen the easiest solution to our problems, and, in a state of full employment, total output of any given composition can only expand if the productivity of individual workers increases. Measures designed to increase productivity which may involve some reduction of the numbers employed in particular industries are more readily accepted when other jobs are available.

More production is required both to meet the commitments of high government expenditure at home and to achieve and maintain a high level of exports without reducing domestic consumption or investment. This does not mean more production regardless of cost. Exports must remain competitive at the required volume if continuous devaluation is to be avoided. At the same time production for the home market must be at the lowest possible cost if real income is to rise. From these points of view it may seem more sensible to concentrate on lower relative costs rather than higher productivity. But a campaign to lower costs relative to the outside world would be not so easy to manage, and one to lower costs internally difficult to understand, if all prices are rising. Costs are determined by factor prices as well as by factor productivities and it would be impossible to decide either what the 'correct' factor prices are at any moment or what should be their rate of growth. The relation between costs and productivity can be regarded from two aspects. With given factor prices, costs will fall if productivities rise. Alternatively if costs are to remain constant, factor prices can only rise if productivities rise. If relative costs are to fall, therefore, factor prices must rise less rapidly than productivities. It is possible to reach what is desired by indirect methods. Productivity-conscious will usually mean cost-conscious and higher productivity involve lower cost.

If then, we are to raise productivity to keep real costs as low as possible we must first know what productivity means and then analyse how it changes. To do this it is useful to find out why productivity varies as between countries and firms, and to this end the comparative productivities of British and American industries will be examined. Though it has been known for a long time[1] that productivity in American industry was very much greater than in British, the findings of Dr. Rostas published in the *Economic Journal* in 1943 gave the most complete statement of the difference. Further evidence is provided by the working parties and the missions they sent to the U.S.A., and by the delegations of the Anglo-American Productivity Council.

Meaning and interpretation

By productivity is usually meant the amount of production, measured in physical units or in value terms, per man-hour or per man-year. By changing the denominator of this fraction from units of manpower to units of capital or units of land, it is, in principle, possible to obtain a productivity measure in terms of the other factors of production. In practice it is difficult, if not impossible. In the rest of this chapter productivity unless otherwise specified, will mean labour-productivity.

The censuses of production provide the basic data for manufacturing industry in the U.S.A. and United Kingdom. It is possible to calculate physical output per operative and per employee for those industries which produce a fairly homogeneous product, and net output per employee and per operative for all industries. Net output or 'value added' is defined in the British census as gross output (which equals the value of output at the factory) minus the cost of materials and fuel used, and minus the payments for work given out. The use of these measures raises an enormous number of statistical problems which there is not space to treat here.[2] More serious, however, than problems of statistical com-

[1] See, for example, Taussig, *Quarterly Journal of Economics*, 1925; A. Young, *Economic Journal*, 1928.

[2] We should note difficulties arising from, (*a*) the definition of the industry, e.g. the industries may not cover the same productive processes; (*b*) the definition of the product, e.g. the product structures may be quite different; (*c*) the different compositions of the labour force.

For a full discussion see L. Rostas, *Comparative Productivity in British and American Industry*, N.I.E.S.R., 1948, pp. 11–14, and for an example of how these problems were met in one particularly difficult industry, pp. 178–82.

parability, are those raised by the concept of productivity and by the actual measure used. The value of net output, as can be seen from its definition, is affected by many things. It is a residual and equal to the income generated in the industry plus depreciation and the payment for such services bought outside the establishment as postage and advertising. Its size is therefore affected by the amount of capital used up in production (depreciation), as well as by the amount of capital used (degree of capital intensity), and the types of labour employed, e.g. skilled, unskilled, male, female. It is affected by market conditions which determine the size of the net profit margin, so that a firm may have a higher net output solely by virtue of being more 'monopolistic'; it is affected by the extent to which firms provide their own transport and other services. Finally, important quality variations may be concealed by the figures whether of quantity or of value. These variations may be of two kinds. Either the products appear the same and are in fact different, or, as is the more typical case, different proportions of the various qualities are produced. It is possible to allow for the latter variation by weighting the products to obtain an 'average' product. For example, in this kind of calculation the average British car is assumed to be equivalent to the average American car, and in comparisons over time the average car of any year equivalent to the average car of any other year. This is clearly a drastic assumption. When making comparisons between firms, however, the assumption is more sensible if the market is sufficiently competitive to keep the relative prices of the different grades in line with real quality differences.

It is easy to confuse productivity with efficiency. Indeed, some writers interchange the words with happy abandon, and, since efficiency is always desirable, draw the conclusion that high productivity is likewise always desirable. To say, for example, that American industry is twice as productive as British is not to say that it is twice as efficient. Many have leaped to this naïve conclusion, while others have reacted so violently to the implications of high American productivity as to reject all the findings about it and deny the usefulness of the concept. High productivity does not necessarily imply great efficiency. Efficiency is a relative term and can be defined as the ratio of useful output to total input. Since in economics the only unit of measurement which permits us to aggregate inputs is value, the efficiency index becomes

$$\frac{\text{value of output}}{\text{value of inputs}}$$

This fraction necessarily equals unity, since in the modern theory of value total cost always equals total value. We can however in some cases say something about the relation between efficiency and productivity. If one country or firm uses less of all the factors of production than another to produce a given output, then it is more efficient.[1] In all other cases the only criterion of economic efficiency is lower average cost. In using the cost criterion to compare two firms the prices of the factors should be the same to each firm, and will often be so. But when comparing two economies it is not sensible to allow for the different factor prices. For the different relative prices will reflect, however imperfectly, the different relative scarcities of the factors, and they will therefore be combined in different proportion. Despite all these qualifications, productivity still remains a useful tool. It provides (in conjunction with supplementary indices) an index of industrial progress, while an analysis of the factors which result in productivity differences throws light on the policies required to make incomes higher. With given resources, real income can only rise if labour productivity rises.[2]

Comparison of productivity in the U.S.A. and the U.K.

The comparison made by Dr. Rostas[3] may be summarized as follows:

1. For a sample of thirty-one manufacturing industries where comparisons of physical output per operative and per man-hour were possible, the picture for 1935 emerges as shown in Table 1. When the productivity relatives for individual industries are

[1] The argument may be represented symbolically as follows:
q = man-hours in country/firm A, q' in B.
r = amount of capital . . ., r' in B.
s = amount of raw materials . . ., s' in B.
If they produce the same output, $f(q, r, s) = \phi(q', r', s')$.
If $q' < q$ $r' \leqslant r$ $s' \leqslant s$ then labour productivity in B is higher and B is more efficient $\frac{\phi(q', r', s')}{q'} > \frac{f(q, r, s)}{q}$. If $q' < q$, but $r' > r$ $s' \geqslant s$, then labour productivity is higher in B but it is impossible by this method to say which is more efficient.

[2] Neglecting changes in the terms of trade.

[3] L. Rostas, *Comparative Productivity in British and American Industry*, N.I.E.S.R., 1948.

weighted by U.S. employment to obtain the average, American superiority is greater than when they are weighted by U.K. employment, and the difference is greater when years representing a closer degree of capacity use are chosen. This implies that industries which have a relatively greater superiority in the U.S.A. occupy a more important position in its industrial structure.

TABLE I

Comparative Productivity in thirty-one industries in the U.K. and the U.S.A., 1935

	Output per worker		*Output per man-hour (for smaller number of industries)*	
	U.K.	*U.S.*	*U.K.*	*U.S.*
Unweighted	100	216	100	287
Weighted with British employment	100	212	100	273
Weighted with U.S. employment	100	215	100	275

2. A comparison of all factory trades by value of net output shows the U.S.A. to be 2¼ times more productive per head.

3. The productivity superiority of the U.S.A. was most marked in the mass-assembly and mass-production industries.

4. The percentage growth of output per wage-earner was 1·4 per cent. per annum for the United Kingdom and 1·8 per cent. for the U.S.A. between 1907 and 1937 and output per man-hour 1·7 per cent. and 2·9 per cent. respectively.

5. Although it is impossible to bring these facts up to date until the census of 1948 has been published, employment and production indexes would seem to indicate that the gap between the two countries has widened. This is not surprising. Great Britain failed to replace capital equipment during the war to a much greater extent than did the U.S.A. and net investment per head in manufacturing industry has since been appreciably lower.

Explanation

The explanation of the observed differences in productivity may be usefully divided into two sets of causes, proximate and fundamental.

1. The first and most obvious factor accounting for greater American productivity is that American industry uses more capital per head. There is much evidence in the form of individual judgements about the greater degree of mechanization in American industry, but the statistical evidence is inevitably patchy and inadequate. For it is impossible to find a satisfactory indicator for the amount of capital. Mr. Arndt[1] has calculated that depreciation in the U.S.A. was in 1937 about £40 per head compared with £12 per head in Great Britain in 1935. American industry not only replaces capital more rapidly than does British industry, which affects productivity because it means that on the average American firms will be more up to date than British firms, but also uses more capital-intensive methods. Both these forces are of course reflected in the figures for depreciation which is a function of the amount of capital and the rate at which it is written down. Eight out of thirteen Anglo-American Productivity Council reports mention more capital as an important factor, while four out of thirteen noticed that in their fields American machines were better. A further indication of the greater use of mechanical aids is that the American worker uses more electric power than his British counterpart.

Though America uses more capital per head this does not necessarily mean, as some have argued, that the denominator of the productivity ratio has been artificially reduced. The proportion of workers engaged in producing machinery and equipment is probably not greatly different in the two countries.[2] The greater productivity in the machine-making industries permits the U.S.A. both to use more capital per head and to use up more capital per unit of output without a proportionate increase in workers employed in machine-making industries. It is also possible that American machinery does not to the same extent physically outlast its useful economic life.

2. American management and business organization is more effective not only in using current practices but in seeking out new methods and experimenting. Our industrial weakness has for long been held to lie in our failure adequately to apply the results of fundamental research and this failure must be attributed to inadequate entrepreneurial foresight. The powers of organization express

[1] H. W. Arndt, *Oxford Economic Papers*, Nov. 1947.

[2] See Rostas, op. cit., p. 57.

themselves in every conceivable way, in the design of factory lay-out, design of the product, standardization of the product, and so on. There is a great deal of evidence that standardization has proceeded further in the U.S.A. than here. Standardization permits flow production and greater machine utilization and is often the prerequisite for the use of some machines. Eight out of thirteen Anglo-American Productivity Council reports mention more standardization and nine out of thirteen better managerial techniques as important factors in explaining productivity differences in their industries. Again, the Pottery Working Party Report, for example, mentions the lack of good managers as reflected in the poor rewards paid, as a factor inhibiting productivity growth. 'The most significant factor in America leading to high production at low cost is efficient management' (Management and Accounting Productivity Team).

3. It has been argued that the American worker works harder than the British in the sense that physical effort is greater. All the opinions on this are necessarily confused. It is impossible to separate the influence of good management and more capital per head from the influence of personal effort. Only the Building Productivity Council Report thinks Americans work harder, but building is an industry notoriously bad in both countries and is hardly typical of manufacturing industry. The Trades Union Congress Report explicitly denies the proposition: 'Except in a few isolated cases we saw nothing to suggest that Americans work harder . . . owing to the greater use of machinery, mechanical handling and lifting equipment and various other factors the American operatives' work is more effective.' Again, the Hosiery Working Party Report states: 'It must not be assumed, despite the efficiency of the industry in America, that they have created either super machines or super knitters . . . given the same facilities the average experienced British knitter would produce equally with his American counterpart' (p. 29). It is clear that differences in the intensity of work—even if they exist—cannot account fully for the wide difference in productivity. What is certain is that American labour is on the whole more productivity-conscious.

Various, more fundamental, explanations have been offered:

A. It has been argued that because the United Kingdom led the way in industrialization later arrivals in the field had the advantage of starting with the knowledge of our accumulated experience. The

argument cannot by its nature apply to the peculiarly twentieth-century industries, such as radio, cars, petro-chemicals, and synthetic fibres; moreover, it loses whatever force it may have had with every year that passes. The age of industry can matter for three reasons:

(i) Location may retard development. If the original location of the plant was economical and the circumstances determining the best location change (e.g. the exhaustion of mineral ores) then one of the economies open to a new plant has been forfeited.

(ii) The ownership of an industry's plants may be too widely scattered for changing circumstances. For example, collieries in different hands but operating the same seam will duplicate haulage. This in some cases prevented proper re-organization between the wars.

(iii) The original size of an industry may become inappropriate. If this leads to chronic excess capacity the introduction of improvements may be retarded by the accumulation of old capital fully written off.

B. It is fashionable in some quarters to point to the size of the American market as the prime cause of productivity differences. The size of the market as a whole is dependent upon both numbers and real income per head. But the size of the market for any particular product is also affected by the number of varieties of product. On the first count—wealth, the U.S.A. has for a long time been the largest single free-trade market. Before the First World War, however, Great Britain tapped a similar real income by means of her export trade. Yet American superiority was as marked in 1907–9 as in 1935–7. The second point is, in fact, the important one. It is certainly true that the market for standardized articles is larger in America and that variety is proportionately less. But this market was created by American management. The market is not an objective factor which must be taken for granted by each producer. It is, or can be, created by him. The contrary proposition is a hangover from that branch of economic theory which concerns itself primarily with perfect competition where the market is an objective factor to each firm. It is and always has been open to the United Kingdom to create a market of similar size to the American for most products. This may lead to questions of mono-

poly control, but the benefits of larger scale production may well outweigh the disadvantages of greater concentration.

C. A variant of the previous argument specifies that the size of the economy as a whole is important, so that opportunities for increased specialization as between firms are available and external economies (such as research facilities) are present. Historically this is probably quite an important factor affecting development; in particular that of transport systems. However, this can hardly play an important part in explaining the productivity differences; for Great Britain is large enough to derive the important economies of scale; and international trade permits of specialization.

D. The environment, both economic and social, was claimed by nine out of thirteen of the Productivity Council reports to play an important part. The social environment is, partly at least, both a cause and a result of higher productivity. A result because high productivity means high real incomes, a cause because high real incomes permit of more leisure and consumption which in turn are reputed to raise productivity. The following factors are said to matter: there are fewer barriers to advancement in the U.S.A., business attracts more ability (e.g. graduates and scientists); promotion into managerial grades is easier for the able; business is more ruthless with its failures; the 'American way of life' encourages persistent competitiveness and mobility. To quote the report of the Steel Founding Team: 'Competition is keen at supervisory levels for the jobs which bring the greatest rewards both in continuity of employment and in earnings, and, since entry to the supervisory grade is dependent only upon energy and ability, there are many would-be entrants ready to take the places of those who fail to make the grade . . . opposition to a course designed to increase productivity, even if it intensifies competition, is rare' (p. 33). This attitude is reflected in institutions. In the United Kingdom there can be no doubt that trade unions are much more restrictive in their outlook. Resistance to mechanization and the adoption of new methods is widespread. The following examples will serve to illustrate: resistance in the cotton industry to redeployment and a more rational wages structure,[1] in the docks to

[1] There has been a slow change of attitude in some sections of the industry. But progress is very slow. Despite a vigorous campaign in textiles, a campaign reinforced by shortage of labour, productivity growth has been below the average. See Table 2.

mechanized handling, in engineering to removal of unnecessarily long apprenticeships, and generally the restriction of output because members of the trade unions are unwilling to exceed the output of some average member. On the employers' side those trade associations which among their less admirable functions muzzle competition, dull thereby the economic incentive for greater productivity. The reports of the Steel-Founding Team and the Management Team both regarded the lack of competition as an important factor: 'Throughout American Industry competition is a governing factor' (Steel-Founding). 'The Americans are always ready to make use of technical advances to improve their efficiency, realising that only so can they raise the standard of living. This readiness is all the greater since the strict enforcement of the Anti-Trust Laws prevents the growth of price agreements, quotas and restrictive practices'[1] (*Management Accounting*, p. 14).

E. In explaining why labour is more productive in the U.S.A. we must also explain why labour is relatively scarce. When applied to a factor of production the words scarce and productive have the same meaning. We want to know therefore why it was profitable for the American business-man to use more capital and economize in labour. Historical generalization is the most dangerous of exercises, but the following factors at least do not conflict with the conclusions of theoretical reasoning.

(i) Before 1914 in the United States there was an abundance of good agricultural land which exercised an attractive pull away from industry. Immigrants were more interested in farming, as many of them came from countries with surplus rural populations. Though they did not to any extent immediately achieve their desire to farm, they were unskilled, and had no tradition of industrial work behind them. To retain the more able, therefore, the business man had to offer high rewards for skill; to employ the unskilled and often illiterate he had to incorporate the skilled operations in the machine.

(ii) Partly for the reasons noted above the American population has always been more mobile and restless. This has afforded

[1] This productivity team is right in their observation that the American business world is more competitive, but wrong in attributing this to Anti-Trust legislation, which has not been so very successful.

an added incentive to business men to try to dispense with labour and particularly skilled labour.

(iii) The U.S.A. imported capital throughout the nineteenth century whilst the United Kingdom exported capital. These capital exports of course made a significant contribution to the British war efforts in 1914–18 and 1939–45 and the interest earned on them raised real incomes between the wars. It appeared worthwhile to export capital because labour at home was relatively abundant and raw materials relatively scarce.

These factors no longer apply, but they helped to develop an attitude of mind and fix a pattern of development which has persisted. The virtuous spiral, more productivity—higher income, has been preserved.

Inter-firm comparisons

It would be instructive from the point of view of analysis and of policy-making to have inter-firm comparisons of productivity. The environmental forces which play a very important part in explaining the international differences would then be largely removed. It is often stated and is well known that there are wide variations in productivity between firms. Unfortunately there is little evidence. The following examples give colour to the kind of variation that is so often claimed.

1. L. Tippett[1] says that the 'spread in productivity between cotton mills producing similar products is three to one'. He attributes this 'spread' to 'moral and organizational factors'.

2. The Boot and Shoe Working Party Report found for 1935 a variation among firms making similar grades of shoe of from 720 pairs to 1,440 pairs per annum and of net value per head from £111 to £247; there was also a substantial dispersion of piecework earnings as between firms.

3. The Lace Working Party Report shows that while there was little variation as between size groups there was enormous variation within each size group.

4. The Wool Working Party Report states: 'There are, however, wide variations in efficiency between the different firms in the industry. The standard of the best is one well worthy of emulation

[1] Tippett, *Journal of Royal Statistical Society*, vol. cx, Part II, 1947.

and if generally achieved would of itself produce a marked improvement of output.'

5. The Furniture Working Party Report presents a very complete analysis. It finds an enormous spread between firms on the basis of 1935 census data. The net output per head of the middle half of firms alone ranges from £138 to £233. Using more recent figures of utility production it finds an even wider spread both in terms of physical units and net output.

6. L. Rostas, in *Prices, Productivity and Distribution*,[1] analyses the relation between size and productivity. He comes to no simple conclusion, though net output tends to increase with size. Unfortunately, from the census as they stand, it is not possible to find the spread between firms.

In the analysis of inter-firm variations of productivity the same qualifications apply to the concepts of net output and of labour productivity. After these qualifications have been made, the residual variability can be explained in terms of capital intensity and the quality of organization. The surprising thing is that this variation is in fact so large. Improving the worst firm may well be the most hopeful method of raising average productivity. Of course all firms cannot be equally productive. There is a shortage of first-class entrepreneurs. But we should ensure that inferior firms are not artificially kept in business (where low productivity results in high costs).

Productivity since the war

Having analysed the determinants of productivity differences we can now see how productivity has been changing since the war in the United Kingdom. For this purpose it is necessary to use employment and production indexes, and the results must be treated therefore with the greatest of caution. For there is no consistent series for employment throughout the period: it is difficult to see what precisely an index of industrial output means when the composition of output has changed drastically; and the production index is a measure of gross output which may not remain in a constant relationship with net output.[2] Using the Interim Index of

[1] N.I.E.S.R. Occasional Paper, 1948.

[2] See Carter, Reddaway, and Stone, *The Measurement of Production Movements*, and *Studies in Official Statistics*, No. 1. The Interim Index of Industrial Production.

Industrial Production (excluding building) we find the following changes of productivity:

'Productivity in Industry' (*1938* = *100*[1])

1946	*1947*	*1948*	*1949*	*1950*
99	99	106	112	120

Since 1948 a series of employment figures is available which corresponds to the industrial classification used in the Index of Production. I have therefore calculated productivity figures for all the industrial groups with a base of 1948 = 100. The results are shown in Table 1 and represent productivity per man-year. Since hours worked have fallen since 1938 productivity per man-hour is between one and two per cent. higher in each year than the index in the Table.

Immediately after the war productivity was lower than in 1938, and pre-war productivity was probably not passed until mid-1947. This fall was inevitable. There was a considerable dislocation in industry as capacity was switched from war- to peace-time purposes, a more normal labour force had to be recruited as the women who had worked during the war left industry, and labour was not used intensively as tooling up for new production takes time. Moreover, some industries which were subject to control and experienced raw material shortages, tended to hoard labour in the expectation of better supplies. Since the end of 1947 productivity has in general increased more rapidly than was expected on the basis of pre-war experience. Initially this is not surprising as bottlenecks in supplies were cleared; but that the rate of growth should have been sustained until early 1951 needs more explanation, especially as the general view among business men has been that labour is not working as hard as before the war. There are two possible explanations. Since there has been full employment, particular industries have experienced both acute labour shortages and a rapid turnover of labour. Moreover, the expectation that labour would become increasingly expensive has been fostered by inflationary pressure. Management has thus been encouraged to economize in labour. More fundamentally it is probable that productivity has benefited from the improvement in techniques, and the natural growth of

[1] Different results could be obtained if 1935 weights were used to link the index back to pre-war owing to the negative correlation between production and price changes in this period.

knowledge, whose full application had to wait until after the war. Technical progress is stimulated by war, its benefits are received only after a time-lag. A similar pattern both in Great Britain and the U.S.A. can be discerned after the First World War.

TABLE 2

	1949	*1950*	*1951 (first six months)*
More than 5½ percentage points above average	Vehicles Paper and printing	Vehicles Precision instruments Paper and printing	Vehicles Precision instruments Wood and cork Paper and printing
Up to 5½ percentage points above average	Metal manufactures Manufactures of wood and cork Building	Metal manufactures Manufactures of wood and cork Other manufactures	Chemicals
Equal to average for the year	Textiles Clothing		
Up to 5½ percentage points below average	Treatment of non-metaliferous products Chemicals Engineering, shipbuilding, electrical Other metal goods Leather, fur Food, drink, tobacco Other manufactures Mining	Chemicals Engineering, ships, &c. Other metal goods Textiles Leather, fur Building	Mining Treatment of non-metaliferous products Metal manufactures Engineering, ships, &c. Other metal goods Leather, fur Other manufactures Clothing
More than 5½ percentage points below average		Treatment of non-metaliferous products Clothing Food, drink, tobacco Mining	Building Textiles Food, drink, tobacco

Averages (1948 = 100)

Manufacturing industry	106	116	118
All industry	105	113	115

It is possible from past data in many countries to observe a connexion between the rate of growth of output and the rate of growth of productivity. A similar connexion exists in the post-war period. In nine industrial groups out of twelve productivity growth above the average is associated with production growth above average and productivity below the average with production below average. This is partly due to the greater use of capital in the former case and the tendency to hoard labour in the latter.

Conclusion

In August 1948 Sir Stafford Cripps, in consultation with Mr. Paul Hoffman, the administrator of E.C.A., set up the Anglo-American Productivity Council to study the problem and find out the lessons to be learnt from America. A large number of teams, selected from industry by the trade associations, employers' federations, and trade unions concerned, were set up. Many of them have been to America and have since reported their findings. The purpose of the reports is to spread knowledge of American methods and to make recommendations to increase productivity, both of a specific nature for their own industry, and of more general application. Apart from their specialized recommendations the reports say little that is new. They all show a surprising similarity and complete unanimity in their recommendations. The general recommendations may be summarized as follows: more standardization, more research, the use of more effective managerial techniques (e.g. time study and budget control), more mechanization (especially of handling operations), and the better lay-out of existing factories.

When considering what policies are required to increase productivity it should be remembered, as many reports emphasize, that high productivity is partly the result of an attitude of mind. All that policy can do is to ensure that the economic climate is favourable to the growth of that attitude and that the essential techniques for higher productivity are available to all and are used.

The Government has clearly an important role to play and can help in the following ways:

1. More capital per head is of course required in industry, and though this must of necessity involve a long-term continuous programme, investment in industry should not be regarded as a residual claimant on total investment resources to be cut down

whenever there is inflationary pressure. Fortunately from the point of view of productivity it has proved difficult to control private investment. By taxation policy the Government can stimulate investment. There is some evidence to suggest that the more generous depreciation allowances for tax purposes in America have played a part in the growth of capital there.

2. The Government and local authorities can encourage standardization both through their buying programmes and by encouraging industry to cut down the number of varieties. For example, the local authorities can standardize the sizes of baths and other plumbing fitments since they control so much of the output of the building industry. The Government could have used the utility scheme both to enforce minimum quality standards and to cut down variety.[1] It may not be possible to emulate America fully in this, because our export markets are of greater relative importance and here some variety is needed to meet diverse needs. There can still be no doubt that there is considerable scope for more standardization at the very least in components. For example, ball-bearings are made in both inch and metric sizes even where the majority of world demand is for the latter.[2] More standardization does not mean lower quality. Many varieties are the result of differences in dimension which bear no relation to the quality of the product. Examples can be found in the size of metal containers, the fixing points and shaft sizes of fractional horse-power motors, electrical fitments, screw threads, and valve bases (one British manufacturer deliberately made his valve bases fractionally different from the International standard for the 6·3 volt range of valves). Quality should not be a fetish. We may make some very high quality goods to which the above does not apply, but in the markets for mass-produced products, non-standard does not mean high quality.

3. The Government can take action against the restrictive practices fostered by monopolistic organizations to restore the edge to traditional economic incentives.[3]

On the managerial side of industry there are no sovereign remedies. The methods of raising productivity are available and known

[1] For an account of the Utility schemes see Chapter XIII.

[2] See P.E.P. *Motor Vehicles*, pp. 134–41 for many examples of absolutely pointless variety.

[3] This is dealt with by Mrs. Hall in Chapter XVIII.

but insufficiently practised. Several managements, as witnessed in the speeches of the companies' chairmen, have found that by relatively simple and inexpensive improvements in organization, productivity can be raised at once by up to 25 per cent. It does not of course follow that in these firms future increases will be so easily obtained. In effect what is required is an educational programme for the spreading of existing knowledge and a research programme to extend that knowledge. Organizations such as the British Institute of Management are already engaged on this task.

The Trades Union Congress has already shown considerable interest in the problem, and, in the Report of the Team it sent to America to study the role American unions play in increasing productivity, accepts the need for a changed attitude on the part of British unions to such things as redundancy and 'scientific management'. Here, too, the only way to improvement appears by education and exhortation. The effectiveness of this will depend in the long-run upon the maintenance of full employment. Trade unions are unlikely to accept measures which would make some labour redundant in particular trades unless there is an adequate social security system and a high probability of speedy re-employment. Further, in so far as some restrictive practices were the result of continuous high unemployment in pre-war days, the maintenance of full employment is prerequisite to their removal.

A pre-occupation with labour productivity should not be allowed to obscure the need for greater efficiency in the use of raw materials and capital. Thanks to an abundant supply of relatively cheap coal before the war, it is well known that the United Kingdom is backward in fuel technology. It is just as important to raise productivity per unit of raw materials and fuel (i.e. lower fuel per unit of output). Otherwise shortages of fuel and power and possibly of raw materials are likely to place a fairly low ceiling on the rate of labour productivity growth. The effects of shortages can be seen in the figures for the first six months of 1951. Moreover, since increasing productivity in manufacturing industry applies only to about 30 per cent. of the economy, attention to distribution and services, not least those provided by the central and local governments, is essential. If productivity increases in manufacturing industry are to be expected to raise real income the gain must not be frittered away, in extra retailing, for example, unless it is quite

certain that that is what the consumer wants. It is with this in mind that practices such as resale price maintenance have to be examined.

In the immediate future probably the greatest single contribution that could be made to higher productivity is a fuel policy that works. Indeed, a policy is essential if productivity is not to fall when factories stand idle for want of power. At the present time the growth of coal consumption far exceeds the potential growth of output;[1] the long-run solution lies in the cutting out of waste. The story is familiar. Much is known about how to save fuel and yet on the average British coal is burnt at a thermal efficiency of 20 per cent. This figure could be doubled at least, by such devices as stopping the consumption of electricity for space and water heating,[2] raising the average efficiency of coal consumption in the factory by the use of back-pressure turbines (with an overall efficiency of up to 70 per cent. compared with the average thermal efficiency of a modern generating station of under 30 per cent.), and encouraging the sale of cheap, standardized solid-fuel burners of high efficiency.[3]

The parts of an economy are interdependent. Productivity will not rise in manufacturing if power supplies are limited. Real incomes will not rise in the country as a whole by the full amount they should if productivity in distribution is static.

[1] The National Coal Board Plan for coal hopes for a rise in coal output of 36 million tons by 1965. Planned consumption by the British Electricity Authority is 33 million additional tons per annum by 1965. To give every British worker as much power as the American worker would need still another 30–40 million tons.

[2] Part of the shortage of electricity is due to the shortage of coal. The shorter people are of coal the more they switch over to electricity. Many houses have efficient boilers supplemented by inefficient immersion heaters for use when solid fuel runs out.

[3] To encourage fuel-saving, government action is needed to prevent the restrictive covenants enforced by B.E.A. which stop manufacturers from installing their own generators, to encourage the installation of efficient boilers and other devices by tax remissions and to stop the selling of inefficient appliances. See *Report of the Advisory Committee on Fuel* (Simon Committee), 1946, Cmd. 6762.

CHAPTER XVIII

MONOPOLY POLICY

By MARGARET HALL

IN 1944, the Coalition Government, in a White Paper, *Employment Policy*,[1] stated its intention, in the post-war world, of avoiding two features of the pre-war system: unemployment and the evils of monopoly. For the first time, all parties concurred in the dominant importance of maintaining full employment and in abjuring the free play of market forces and the price mechanism as a sufficient means of securing full employment.

For the first time also, in British history, all parties agreed on the necessity for the Government to take power by legislation to examine the extent of restrictive practices and to check monopoly where it was found to bring advantage to sectional interests to the detriment of the country as a whole.

> Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full-employment programme.
>
> Employers, too, must seek in larger output rather than higher prices the reward of enterprise and good management. There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest; but the power to do so is there. The Government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole.[2]

The dominant features of the post-war economy were: full or over full employment; progressive equalization of incomes through taxation and subsidies at home; chronic balance of payments difficulties resulting from the limited capacity of domestic production to provide simultaneously for the needs of reconstruction and increased living standards and to meet the gap in the balance of

[1] *Employment Policy*, Cmd. 6527, May 1944, para. 41.

[2] Ibid., para. 54.

payments left at the end of the war; increased pressure of demand for imports of food and raw materials under full employment; rising absolute prices and gravely deteriorating terms of trade. In these circumstances, primary importance was attached to increasing productivity, and the weight of opinion against restrictive practices was correspondingly increased. The attempt to counter the dangers of monopoly took the form, on the one hand, of anti-monopoly legislation: the Labour Government implemented the 1944 White Paper by the Monopolies and Restrictive Practices (Inquiry and Control) Act passed in 1948.[1] On the other hand, outright public ownership by nationalization of certain basic industries secured, at any rate, public control by substituting public for private monopoly. While considerable apprehension was expressed about the difficulty of securing maximum productivity in the nationalized industries, this problem was not regarded as a constituent part of the general question of monopoly but was left to the competence of the individual Boards in charge of nationalized industries. Similarly, while considerable apprehension was expressed about the social dangers of excessive centralization of power in the hands of trade associations and trade unions, nothing was done to limit this concentration of power which had been, in the course of administering government war-time policies, continually augmented. But whereas the Monopolies Act called for a review of the methods used by trade associations, trade union activity was specifically excluded. The Monopolies Act stated that 'practices as to the workers to be employed or not to be employed by them or as to the remuneration, conditions of employment, hours of work or working conditions of workers, or any class of workers, so employed shall be left out of account'.[2] At this point the problem of monopoly too openly touched the balance of political forces and made an objective appraisal of the economic issues the more difficult.

The concentration of economic power was accepted as the normal evolution of the capitalist system. Technical advance required the production of continually larger outputs in the same plant, and the recognized right of labour to organize in trade unions and of employers to form trade associations to increase their bargaining

[1] 11 & 12 Geo. VI, Ch. 66.

[2] Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, 11 & 12 Geo. VI, Ch. 66, para. 3(2).

power had been more and more widely exercised.[1] Belief in competition as an automatic device for reconciling private greed with public interest was gone. This belief depended on a disregard of the imperfections of the competitive process. Prior to the 1930's, economic theory presumed a world of private firms and individual workers behaving as anonymous bargaining units, each one quantitatively negligible in an extensive market. On this theory, entirely flexible prices represented the balance of aggregate demand and aggregate supply in each market and successful competition took the form of beating the other man's prices. This picture was so manifestly unlike the industrial and commercial practice of any advanced capitalist economy that, in the course of the 1930's, it was replaced. In view of the increasing concentration of management both in industry and commerce, price formation came to be regarded rather as the outcome of various types of agreed action than as the automatic outcome of the working of anonymous market forces. In these circumstances, concerted regulation of price and output appeared to many business men (and in the 1930's to the Government itself) to be the natural way of eliminating the element of poker from business decisions.[2]

The dangers of the large corporation were its power of destruction of smaller enterprises—either by losing money deliberately as a means of eliminating competitors or by becoming the supplier of some indispensable commodity or service whereby it could deprive the smaller enterprises of independent initiative. But these powers can be exercised by small firms in agreement and the danger of predatory monopolistic practices is thus by no means limited to large-scale enterprises. This is the danger against which the Sherman Act[3] endeavoured to provide a safeguard in the U.S.A.,

[1] See Chapter V.

[2] So far did this sentiment reach, that business men would pursue a policy of fixing prices for some time, say six months ahead, in spite of changes in external circumstances and they would try to justify such a policy by saying that they were producers and not speculators. For example, when sterling was devalued in September 1949, by approximately one-third, manufacturers with unsatisfied markets had to be urged by the Board of Trade to raise their prices. Such was the authority of the fixed price mentality.

[3] It is often supposed that the Sherman Anti-Trust Act in the U.S.A. was intended to obstruct the formation of giant corporations, and this has given rise to the view that the American anti-trust legislation has failed in its objective. Both views are mistaken. In the words of Justice Holmes, 'When a combination reached a certain size it might have attributed to it more of the character of a monopoly merely by virtue of its size than would be attributed to a smaller

and this was the occasion for the definition of monopoly in the British Act in terms of overall size.

The conditions to which the Act applied prevailed in respect of the supply of goods of any description if either:

(*a*) at least one-third of all the goods of that description which were supplied in the United Kingdom or any substantial part thereof were supplied by or to any persons or by or to any two or more persons, being interconnected bodies corporate, or by or to any such two or more persons who in any way prevented or restricted competition in the production or supply of the goods, or
(*b*) any agreement or arrangements (whether legally enforceable or not) were in operation the result of which was that, in the United Kingdom or any substantial part thereof, goods of that description were not supplied at all.

The Board of Trade was empowered to refer cases to a Monopolies and Restrictive Practices Commission[1] for investigation and report. The Board of Trade might limit the Commission's investigations to reporting the facts of the case, or might request it to report on whether or not any of 'those things operate or may be expected to operate against the public interest'.

The definition of the public interest[2] and the degree and character of competition which it was held to require, obviously lay at the heart of the matter. On this the Act spoke in very general terms:

> Amongst other things, regard shall be had [sc. in determining the public interest] to the need, consistently with the general economic position of the United Kingdom, to achieve
>
> (*a*) the production, treatment and distribution by the most efficient and economical means of goods of such types and qualities, in such volume and at such prices as will best meet the requirements of home and overseas markets;

one. . . . The very words of the act make such a distinction impossible . . . and it has not been attempted in express terms . . .'. This interpretation 'would make eternal the *bellum omnium contra omnes* and disintegrate society so far as it could into individual atoms. If that were its intent I should regard calling such a law a regulation of commerce as a mere pretence. It would be an attempt to reconstruct society. . . . I believe that Congress was not entrusted by the Constitution with the power to make it and I am deeply persuaded that it has not tried.' *Northern Securities Company* v. *United States*, 1933, U.S. 197, quoted Corwin Edwards, *Maintaining Competition*, 1949, p. 99.

[1] 11 & 12 Geo. VI, Ch. 66, para. 1.

[2] Ibid., para. 14.

(*b*) the organisation of industry and trade in such a way that their efficiency is progressively increased and new enterprise is encouraged;
(*c*) the fullest use and best distribution of men, materials and industrial capacity in the United Kingdom; and
(*d*) the development of technical improvements and the expansion of existing markets and the opening up of new markets.

What type and degree of competition or what type and degree of restraint on monopoly were appropriate to these objectives?

There was no doubt about the high degree of industrial concentration in Britain. Concentration of economic power in large industrial or commercial units undoubtedly gave rise to the danger of excessive prices and profits by way of restriction of output. The large producer, unlike the small, could occasion an increase in the price of his product by limiting the supply. The interest of the public was in larger quantities at lower prices. There was thus a direct conflict between private and public interest once any seller became sufficiently large to influence market price. This was the most familiar aspect of the monopoly problem: the social danger of concentration of economic power resulting from overall size.

The more obvious facts of horizontal and vertical combination in the inter-war period were widely published.[1] On the basis mainly of 1935 census data, Leak and Maizels[2] in 1945 made an estimate of the degree of industrial concentration in Britain in 1935 on the basis of the relative contribution made by large undertakings to the national output. The results were impressive. Using as a measure of concentration the proportion of workers in a trade employed by the three largest businesses in that trade, they showed that the degree of concentration was more than 90 per cent. in manufactured fuel, condensed milk, sewing machines, and boot and shoe-making machinery, and wallpaper; from 70–90 per cent. in match, nickel and nickel-alloys, zinc (smelting, rolling, &c.), bicycles and tricycles, cast iron and steel pipes, sugar and glucose, railway companies, dyes and dyestuffs, petroleum, explosives and fireworks, gramophones and phonographs, rayon manufactures, seed-crushing, batteries and accumulators, candles, rubber tyres,

[1] See, for example, Lucas, *Industrial Reconstruction and the Control of Competition*, 1937; Allen, *British Industries and their Organization*, 1933; Marquand, *The Dynamics of Industrial Combination*, 1931.

[2] *Journal of the Royal Statistical Society*, Feb. 1945.

cast-iron stoves, telegraph and telephone apparatus, spirit distilling, polishes, refrigerating machinery, margarine, incandescent mantles, wrought iron and steel tube, gold and silver refining, weighing machinery, soap boilers, photographic apparatus and appliances. There were, in addition, a large number of important products the production of which was in effect the monopoly of one or two firms; particulars of output could not be published in the Census Reports because publication would involve the disclosure of confidential figures. Over 100 such commodities were listed.

When it is remembered that many forms of association, both overt integration of management[1] and also the widespread and crucially important association of independent business enterprises to concert price and output policies, were not included, this estimate of the degree of concentration of British industry in 1935, spectacular though it was, must be considered a bare minimum.

These data relate to 1935. At that time, not only was there little or no popular fear of concentration of management but the Government itself, by a variety of means in different sectors of the economy encouraged the concentration of economic power in the name of the 'rationalization' of industry. Emphasis was laid on the implication of a reasonable organization of industry which the term might imply, rather than on its association with rationing outputs and markets, its more conspicuous aspect in the light of later events.

The outbreak of war in 1939 delayed the taking of a full census of production.[2] The Statistics of Trade Act, 1947,[3] provided for a census of production on an annual basis beginning in 1948. Preliminary and very broad results of this census were published in the course of 1950,[4] but they were insufficiently detailed to provide the basis for a comparison with 1935 conditions. It is impossible therefore, in 1952, to verify from census data the impression which

[1] The only form of association included in these estimates is where an aggregate of firms was owned or controlled by a single parent company. Control results when the ownership of more than half the capital (or voting power) of any company is owned by the parent company. The case of joint ownership of Guest, Keen, and Baldwins Iron and Steel Company Ltd., by Guest, Keen, and Nettlefold Ltd., and Baldwin's Ltd., is quoted as an association which is excluded by this definition.

[2] A partial census of production for 1946 was taken in the building and contracting trade. See *Board of Trade Journal*, 6 Mar. 1948, for the origin and purpose of the census.

[3] Statistics of Trade Act, 1947, 10 & 11 Geo. VI, Ch. 39.

[4] *Board of Trade Journal*.

particular evidence suggested, and against which there was no contrary evidence, that the process of industrial concentration continued throughout the war and afterwards.

By 1944, both in government circles and among the general public, this rapid concentration of management was viewed with apprehension. Under the exigencies of war the process of concentration had been accelerated even in those industries unaffected by the concentration of production programme.[1]

The Government was responsible for bringing about a war-time concentration of production in so-called 'nucleus' firms in many industries making non-food civilian goods. Its aim was to avoid the higher costs of under capacity working and to free the maximum quantity of labour and factory accommodation for war purposes. Thus planned capacity in fewer firms was preferred as a matter of public policy, during the war, to the reduction of capacity by bankruptcy. The interest of the Government's war-time concentration programme was not in the application of that principle, which was not new, but in the techniques chosen to bring about concentration. The Government disclaimed the policy of asking 'an industry through its Association or representative body to prepare a scheme to cover all its members'—(not all interested parties). The tendency was to consult some particular firm or firms within the trade association rather than the association *qua* representative body. But, an essential feature of the policy was that individual firms in each industry were expected to make arrangements with one another that would provide the required degree of concentration; those arrangements would naturally be discussed within the association, and the above decision not to approach the industry officially through its associations appears to have been one not of principle but of expediency. Little or no regard was paid by the Government to the question whether the trade association represented all the interested parties or to the manner in which decisions were reached. The Government laid 'the essential facts clearly before the industries concerned', stated the degree of concentration required, 'and encouraged individual firms to initiate the desired changes in industrial structure'.

The concentration schemes were required to include arrangements for deconcentration—to return members to their pre-war

[1] Board of Trade, *Concentration of Production*, Explanatory Memorandum, Mar. 1941, Cmd. 6258.

position in trade. Not all the factories wanted to reopen however. Of those who did we learn, for example, in the Soft Drinks Industry, that 80 per cent. had done so within the 'deconcentration period of sixteen weeks'.[1] The Government's dilemma in this instance illustrates one aspect of the problem of preserving competition consistently with the exercise of government economic controls, and the difficulty of avoiding public sabotage of competition in supposedly competitive areas.[2] In the concentration programme, the Government temporarily suspended competition and used the allocation of raw materials and labour to sanction its programme by giving priority to the 'nucleus' firms in which production was concentrated.

In the course of the war, the use of almost all primary materials as well as the channels of trade of food[3] and non-food consumers' goods[4] came under close government regulation. Between 1948 and 1950 the allocation of most industrial raw materials except wood became nugatory as supplies became more plentiful until the invasions of South Korea in June 1950 bought back overnight conditions of world scarcity previously known only in periods of world war, and led to the resumption of materials allocation in the United Kingdom. The period of free supplies was too brief to unfreeze the pattern of production as between individual firms, to change the atmosphere of shared outputs and markets, or to restore freedom of entry of new firms by these means. The same applied in the field of commerce; where consumer rationing was in operation, rationed foods were allocated on the basis of consumer registrations with particular retailers, though after 1949 re-registration was facilitated; but unrationed goods flowed largely through habitual distributive channels. In the field of non-food consumers' goods, until 1948, availability was too low to facilitate competition; buyers were afraid to leave their traditional suppliers. There even remained in many fields the tendency to allocate supplies on the basis of 1938 turnover.

[1] *Soft Drinks Industry—Concentration* issued by the Soft Drinks Industry (Wartime Association Ltd.). The soft drinks concentration was an exception to the general rule that firms retained their identity and their trade marks. In the case of soft drinks, trade marks were suppressed and the whole industry operated as a single concern with pooling of profits.

[2] See Corwin Edwards, *Maintaining Competition*, 1949, chaps. 1 and 2 for an excellent discussion of similar problems in the U.S.A.

[3] Food Rationing Orders. [4] Limitation of Supplies Orders.

There were thus, in this period, few forces making for change in the proportion of output produced or sold by particular enterprises. As supplies became more freely available in 1949 and 1950 and this restrictive factor was largely removed, it became evident that the *status quo* mentality and security-mindedness on the part of both buyers and sellers which had developed in conditions of severe shortages, would not disappear quickly with relative plenty. It had become, for the time being anyhow, an autonomous influence. It is in the light of these considerations that the problems of monopoly in post-war Britain must be understood.

The Board of Trade did not refer to the Monopoly Commission for investigation those industries where production was notoriously concentrated in a few large units, the traditional textbook monopolies like the chemicals industry or rayon manufacture. On the contrary, the Commission devoted its attention to certain industries where a number of small firms had associated to pursue collective price and output policies. Attention was thus focused not on the scale of production operations but on the restrictive trading practices employed by manufacturers and traders in association, and the spotlight played on the distributive trades.

In the U.S.A. a considerable volume of evidence of current commercial practices had been accumulated during the century in the course of administering the Sherman Act, the Clayton Act, and the Federal Trade Commission Act, and, in addition, the report of the Temporary National Economic Committee on the Concentration of Economic Power[1] provided a wealth of semi-official data; while research institutions, uninhibited by such severe libel laws as the British, had added their contributions. Little comparable information was available in the United Kingdom. After the war, however, the mantle of secrecy was withdrawn from restrictive practices, notably in distribution, by the publication of the results of official committees of inquiry. Such were the Reports of the so-called Working Parties,[2] the *Report of the Ministry of Works Committee of Enquiry into the Distribution of Building Materials and Components*,[3] the *Report of the Committee on Resale*

[1] Temporary National Economic Committee on the Concentration of Economic Power, 1941; Monographs 1–43; Hearings; Final Report and Recommendations.

[2] See Chapter XX.

[3] Ministry of Works, the *Distribution of Building Materials and Components*, 1948.

Price Maintenance,[1] and finally, the first two Reports of the Monopolies Commission itself on the *Supply of Dental Goods* (December 1950)[2] and the *Supply of Cast Iron Rainwater Goods*.[3] These reports revealed a position in which restraints on price competition were widely imposed by private bodies together with arrangements for the collective boycott of price competitors and for restrictive dealing. The use of these restrictive practices was not directly related to the size of enterprise; large and small manufacturers and traders alike within the trade association agreed to impose these restraints on competition. While the competition which it was the purpose of public policy to maintain was by no means the all-embracing and beneficent system of competitive theory, the use of boycott and the limitation of entry, either indirectly by arrangements for exclusive purchase or directly as in the case of newspaper distribution by the imposition of distance limits, obviously did not belong to the wider system of industrial and commercial rights which it was the aim of anti-monopoly legislation to secure. These were blatantly predatory practices now shown to be in widespread use. In particular they were shown to be associated with the proscription of price competition by collective resale price maintenance.

The destructive influence of cut-throat price competition in the inter-war period had lent support to those who wanted to restrain price competition. But the unsuitability of price competition as a means of removing excess capacity, demonstrated by the history of the inter-war period, did not invalidate its effectiveness as a stimulus to efficient production and distribution and as a balancing force between the interests of the seller to obtain as high a price as possible and of the buyer to pay as low a price as possible. The dangers of monopoly, after the war, were seen to reside not so much in excessive profits acquired by large concerns, but in the widespread industrial inefficiency, the threat to technical advance, and the excessive multiplication of costly distribution services where price competition was restrained. Success is derived, in these circumstances, from competitive selling efforts and product differen-

[1] Board of Trade, *Report of the Committee on Resale Price Maintenance* (Lloyd Jacob Report), Cmd. 7696, 1949.

[2] Monopolies and Restrictive Practices Commission, *Report on the Supply of Dental Goods*, 1950.

[3] Monopolies and Restrictive Practices Commission, *Report on the Supply of Cast Iron Rainwater Goods*, 1951.

tiation which in their aggregate may be wasteful and often impair the opportunity of the buyer to compare quality and price. They may, indeed, be intended to do so. The relative attraction to the buyer of competing sellers is plain where the article is standardized and the comparison of relative prices will then play an important part. It is not accidental that resale price maintenance, the enforcement of a minimum resale price either by a single manufacturer or by manufacturers collectively, arose with the advent of the branded article. It was part of the effort of the manufacturer to control the disposal of his product at retail and went hand in hand with nationwide advertising. From the manufacturer's point of view, uniform prices fortified the effect of advertising in conditioning the public acceptance of a product; from his point of view also, so long as not all his competitors adopted the same practice, the offer of a guaranteed retail price was used as a means of wedding distributors to his products rather than to competing products; from the distributors' point of view, guaranteed prices appeared, erroneously as events proved, to afford some guarantee of profits.

One form of monopoly breeds another; the advent of large-scale producers of standardized products gave rise to the legitimate desire for a steady flow of orders to secure capacity working; manufacturers attempted to secure this by going themselves direct to the consumer by advertising and circumventing competition among distributors. Distributors proved ready to collaborate. With full employment and rising prices the restraint otherwise imposed on rising prices and margins by the limited buying power of the public was reduced and the necessity of keeping prices down in order to make sales was reduced. In the post-war period, therefore, there were few voices raised in industrial or commercial circles against the practice of resale price maintenance. The profit position was favourable for all, production was limited only by availability of raw materials and labour; some distributors whose main appeal was a price appeal were restive, but for the most part, the lack of competitive pressure from newer and lower cost techniques limited discontent among traders and industrialists with price maintenance; high taxation of profits made the attractions of an easy life in the sellers' market compare favourably with the competitive ardours of introducing newer distribution techniques. The cooperative societies had for many years protested against resale price maintenance, since on some price maintained goods they were not

permitted to pay the 'dividend' on purchases; in other cases they were compelled to add the amount of the dividend to the retail price; in still others they were not permitted to sell at all. Their protests had little effect, however, except to accentuate the antagonism of private traders to the co-operate principle and movement. Only the consumer suffered and he had been led to believe that there was some necessary connexion between the mass production of branded articles and resale price maintenance; though in fact the only connexion was the very simple one that it was neither possible nor profitable to maintain the price of a non-standardized article.

An examination of the references made to the Monopolies Commission shows how attention was focused, after the war, primarily on monopolistic trade practices rather than on the concentration of economic power as such. By mid-1951, of the six submissions made by the Board of Trade, the Commission decided to deal with three industries in which the collective enforcement of resale price maintenance existed. In its first report, the Commission concluded that the Association of Dental Manufacturers and Traders, which supplied about nine-tenths of the dental goods sold in the United Kingdom market, had as its primary object the collective enforcement of resale price maintenance and the limitation of entry to the industry. Its Regulations provided for exclusive dealing and for the collective boycott of non-members of the association. The Commission reported as follows:

> we do not on balance see any objection in this particular trade to the individual manufacturer maintaining the end prices of his goods when he chooses. But we do not think that it is in the public interest that he should be forced to fix end prices in every case or be limited by agreement with other manufacturers and dealers in the maximum discounts he may allow to hospitals and other large buyers.[1]

They recorded that the A.D.M.T. imposed maximum discounts and regarded exclusive dealing and collective boycott as essential to the maintenance of individual manufacturer's resale prices.

In its simplest form resale price maintenance implies no more than the protection of the end prices of manufacturers' brands, and it is as

[1] Monopolies and Restrictive Practices Commission, *Report on the Supply of Dental Goods*, 1950, p. 74.

such that it has primarily been justified to us by the A.D.M.T. But in this trade it has been developed into a complete system for the restriction of competition between dealer members of the A.D.M.T. and for the protection of their gross margins and net profits. It has also offered a general protection for the level of manufacturers' prices.[1]

The second report of the Monopolies Commission states that[2]

The British Federation of Plumbers' Merchants' Associations and the Scottish Metal and Plumbers' Merchants' Federation include among their objects the imposition of restrictive conditions on the trade in builders' and plumbers' materials by such measures as the fixing and enforcing of minimum prices, the publication of lists which amount in practice to stop lists and the punishment of members who do not adhere to prices fixed by the association or who deal with concerns on the stop lists.

The Departmental Committee of Enquiry into the Distribution of Building Materials and Components reported in the same sense[3]

We find . . . that restrictive arrangements affecting the distribution of building materials and components exist on a wide scale; indeed, it may fairly be said that in this field monopoly, quasi-monopoly, and restrictive practices have reigned almost unchallenged for many years. These arrangements, whether embodied in formal agreements between manufacturers and merchants, in tacit agreements or in analogous arrangements, and whether or not the merchant is a party to them, permeate virtually the whole field. The broad pattern of the manufacturer/merchant agreement is an exchange of pledges whereby the manufacturer undertakes to supply the merchant on specially advantageous terms, and the merchant in return agrees to maintain resale prices and not to buy outside the ring. There are a number of effective sanctions behind these arrangements. . . . These practices are profitable to the associated manufacturers and also to the majority of merchants. In our view they are not in the national interest.

The Lloyd Jacob Committee, somewhat earlier, in June 1949, indicated that similar practices were operative over a wide range of industry and trade.[4] This committee was appointed to consider

[1] Ibid., p. 73.

[2] Monopolies and Restrictive Practices Commission, *Report on the Supply of Cast Iron Rainwater Goods*, 1951, p. 58.

[3] Ministry of Works, *The Distribution of Building Materials and Components*, 1948, p. 50.

[4] In *The Distribution of Consumer Goods*, N.I.E.S.R., 1950, it was estimated that between 25 and 30 per cent. of retail sales were price maintained in 1935.

the practice of resale price maintenance in general and to report on whether any measures were desirable to prevent or regulate its continuance. All the main arguments on both sides were presented to the committee and were published in its hearings. Perhaps the most widely accepted argument in favour of the practice was the 'loss-leader' argument: a loss-leader is 'an article sold at a price cut drastically below the established price to attract customers'. There had been cases where certain branded products were 'destroyed' by this means since buyers lost confidence in the product and sellers found it unprofitable to meet the cut prices. The danger of loss-leader selling can be exaggerated. It should be observed, in this connexion that price-cutting is less probable in a time of rising prices and that the loss-leader technique is most serviceable when prices are maintained elsewhere; it may therefore be that resale price maintenance helps to occasion loss-leader selling rather than that it is required itself to restrain the practice.

While official condemnation of the practice of resale price maintenance was new, the monopolistic and hence the controversial character of the practice was recognized in the inter-war period: both the Committee on Trusts of 1919[1] and the Committee on Restraint of Trade in 1930[2] investigated the practice. Neither committee considered that the practice was, on balance, contrary to the public interest; the later committee, however, observed that if, at some future time, the question of public policy in relation to monopoly should be examined, 'the possibility of support being given by the price maintenance system and boycotts to monopolistic combinations and trusts ought . . . not to be overlooked'. The Lloyd Jacob Committee concluded that collective price maintenance was contrary to the national interest but that the individual manufacturer should be free to maintain the end price of his product.[3]

[1] Report of Sub-Committee of the Standing Committee on Trusts, Cmd. 662, 1920.

[2] Report of Committee appointed by the Lord Chancellor and the President of the Board of Trade 'to consider certain Trade Practices', 1930, best known as the Report on Restraint of Trade, 1931.

[3] In June 1951 the Labour Government declared its intention to legislate against resale price maintenance. The proposed legislation went beyond the recommendations of the Lloyd Jacob Committee and outlawed any form of resale price maintenance. The reasons for this were clearly stated: the Government concluded that price maintenance was inevitably associated with restrictive and discriminatory practices and must itself therefore be outlawed except where

The machinery provided by the Monopolies Act was undoubtedly slow moving. First, the commissions had to await a reference from the Board of Trade.[1] Then a fact-finding inquiry took place. Reference to the Commission might limit the investigation and report to the facts or might also require the Commission to decide whether, in its view, the conditions in question operated in the public interest (Section 6, I). Section 10 of the Act then authorized a competent authority, the relevant Department of State, to issue a desist order. Two questions arose: first, was it equitable to forbid one industry to use commercial practices which, while contrary to the national interest, were nevertheless widely used? Secondly, would this piecemeal approach to the problem of monopoly have any noticeable effect in the foreseeable future? The Monopolies Commission, in its first three years, issued three reports on very small industries covering some three eight-thousandths of the total working population. It would at that rate take 8,000 years to cover the whole of industry.[2] Section 15 of the Act provided a more hopeful approach: it authorized the Board of Trade to require the Commission to report on the general effect on the public interest of practices of a specified class where practices of that class had been dealt with, in relation to goods of particular description, by previous reports of the Commission. The practice of resale price maintenance belonged to that category. Investigations into the supply of dental goods and cast iron rainwater goods had provided evidence of its use in those industries.

As far as the private sector of industry and trade was concerned, attention was focused on monopolistic trading practices in the

any industry could establish a special case for its retention. Should loss-leader selling develop on the abolition of resale price maintenance, particular legislative measures would be taken against that as against any other predatory or discriminatory practice. *A Statement on Resale Price Maintenance*, Cmd. 8274, 1951.

[1] The large and increasing number of private requests made to the Board of Trade (by business people who consider their competitive position impaired by the practices or arrangements which they suggest for investigation) in a variety of fields is evidence of the widespread impact of restrictive practices. The restrictive arrangements alleged to impair competition in distribution are usually limiting the availability of supplies to new entrants or discriminatory use of discounts or margins. See H.M.S.O. Monopolies and Restrictive Practices (Inquiry and Control) Act, *Annual Report* by the Board of Trade, for the period ending 31 Dec. 1949 and 31 Dec. 1950.

[2] *Hansard, Parliamentary Debates*, 15 June 1951, cols. 2701 and 2702 (but my arithmetic).

post-war attack on monopoly. The inherent imperfections of competition in retail and wholesale markets produced a situation in which positive action by the State to ensure price competition was required. The circumscription of price competition was seen to lead to the frustration of technical advance both in the distributive trades themselves and also at the production level. In the light of the overriding necessity for increased productivity in Britain this could not be permitted.

The association between price maintenance and technical backwardness in the distributive trades depended on three main factors: first, where price competition was denied, sellers sought to attract the customer by a variety of forms of non-price competition and the cost of these services in the last resort had to be met from the final selling price of the article. Secondly, any uniform price necessarily covered the average costs of the least efficient seller. The lower cost distributors thereby received receipts greater than was needed to pay to retain their services and, in a number of instances, greater than those which the seller would voluntarily have acquired. Thirdly, those sellers whose main appeal to the consumer was a price appeal were prevented from using their particular competitive weapon. The use of competitive weapons which increased distributors' costs—and therefore final prices—was, however, permitted under this system; those which tended to lower costs and prices were frustrated. Lower cost techniques could, of course, be introduced, but their natural reward in the form of increased sales responding to the offer of more competitive prices was denied. Encouragement was given to the search for higher profits from higher prices and margins at the expense of a lower rate of profit on a larger turnover. The consumer paid.

Distribution is the nation's largest industry and the one about which least is known. In 1945 the Government appointed a committee 'to consider whether, having regard to the importance of information being made available regarding the wholesale or retail distribution of goods, a regular Census of Distribution should be instituted . . .'.[1] While the census of production covered the main field of productive industry, before the war, approximately half the total of employed workers in the country were engaged in other trades and occupations of which the distributive and 'service' trades and transport accounted for the major part. The figures for

[1] *Report of the Census of Distribution Committee*, Cmd. 6764 (1946), p. v.

Great Britain for the year 1939, excluding the unemployed and those outside the insurable age limits, were as follows:

TABLE I

Great Britain: Availability of Statistical Data in 1939

Industrial groups	*Number of workers (millions)*	
I. Covered by Census of Production (incl. manufactures, gas, water, and electricity)	7·2	
Mining and Quarrying	0·9	
Building and Contracting	1·3	
	—	9·4
II. Covered by Agricultural Statistics, &c.		
Agriculture, Forestry	0·9	
	—	0·9
III. Not Covered or Not Adequately Covered:		
Distributive trades	2·9	
Transport	1·2	
Other 'Service' trades*	1·9	
	—	6·0
TOTAL*		16·3

* Excluding government service, and private domestic service and private gardening. Distribution was the largest of the occupation groups distinguished in the statistics of the Unemployment Insurance Scheme; yet distribution remained the least explored part of the occupational field

Source: *Report of the Census of Distribution Committee*, Cmd. 6764 (1946), p. 2.

In the absence of official data as to the number of traders and their turnover, various semi-official and unofficial estimates of the number of shops and of the cost of distribution were current on the outbreak of war. These were of the order of three-quarters of a million[1] retail shops or more, that is, approximately one to every sixty persons in the community or one to every fifteen families.

It is important for an understanding of the imperfect working of competition at retail and particularly for an appreciation of the effect of maintaining uniform minimum prices in all stores, to appreciate the wide differences in type of retail operation and thus in distribution costs. Five main types of store were in operation in 1939. By far the most numerous, some 90 per cent. of the whole number of shops, though their aggregate sales were only about 50 per cent. of the total, were the small independent 'unit shops'.

[1] Board of Trade, Retail Trade Committee, Second Interim Report, *The Impact of the War on the Retail Trade in Goods Other than Food*, 20 Jan. 1942.

Within this category are both the unit shop, located in the main street, providing credit service and retail delivery and employing one or perhaps two shop assistants, and also the side-street shop which is typically a family unit. The independent stores serve mainly the neighbourhood and have an important appeal to, and a resultant degree of monopoly over, shoppers by being 'round the corner'. The second type is the department store, usually located in the central markets of densely populated areas; the department store's particular service to shoppers is that it provides under one roof most of their needs and normally provides elaborate retail services. In 1939, about 10 per cent. of total retail sales were made through this type of outlet. Thirdly, there are the multiple or chain-stores, each unit of which restricts its sales rather narrowly to a certain type of commodity, such as footwear. This type of unit offers the advantages of continuous supply of known brands; it combines the advantages of nearness to the consumer with economies of large-scale centralized wholesale buying; each firm buys an aggregate stock sufficient to supply numerous outlets which are geographically dispersed. The fourth type, the variety chain-store, also combines the economies of centralized buying with widely dispersed retail outlets. It differs from the third type in so far as it offers a wide range of articles under the same roof, like the department store, but unlike the department store it specializes in cheap lines and pursues the policy of cutting prices and making a rapid turnover on a low retail margin rather than providing elaborate services. Fifth are the co-operative retail societies; they resemble chain-stores in their organization in so far as the thousand or more separate and autonomous local co-operative retail societies normally own several shops; and they resemble department stores in endeavouring to supply most household needs. Their distinctive characteristic, however, is that they are owned by the shopper members, who obtain a percentage rebate on the value of their purchases, known as the 'dividend'. These stores marketed some 20 per cent. of retail sales and the remaining trade was shared almost equally between the privately owned chains and variety chains.

The Economist[1] published an interesting and valuable estimate of the total number of shops other than co-operatives in each trade in 1945 and of the proportion of them owned by multiple stores. A multiple firm was defined for this purpose as a firm owning more

[1] *Economist*, 27 Apr. 1946, 'Britain's Shops'.

than one shop. Firms with five branches or more were shown separately. The total number of shops (other than co-operatives) was approximately 692,000. The estimated proportion of British shops (excluding village type) owned by multiple firms was 14·3 per cent. and it varied widely from trade to trade. Measured by turnover, of course, the proportion of trade that had passed to the multiple firms was substantially larger. While the indications are that integration of managements was proceeding in retail trade, on the whole the significant fact which emerged from this inquiry was not so much the number of shops owned by multiple firms but the much larger number of very small shops still in private ownership. Retail sales records during the post-war period have reflected the increased proportion of retail sales made by the multiples. In the field of clothing, the sales of multiple shops by far outstripped those of all other retailers continuously since 1947. For clothing and most other non-food goods, the close correspondence between sales movements of department stores and small retailers is noteworthy. Published data seem to indicate the competitive efficiency of chain-stores in this battle between different types of retail business, but further inferences are hazardous until the correctness of relative weighting in post-war distribution statistics can be checked by census results.

With such a wide variety of techniques and costs, some preferred by some consumers and some preferred by others, an index of productive efficiency in retail distribution is difficult to construct. The meaning of productive efficiency is however clear: it is the provision of those distributive services which the community want at the lowest cost consistent with profitable operation. Out of the retailer's gross margin, the excess of retail price he charges over what he pays for the article, he meets his costs of distribution and obtains his net profit. Any reduction in distribution costs will give rise either to lower retail prices or to increased net profits for the distributor. When distribution costs differ as widely as they do between different traders, competition would result in standardized articles being offered at different prices in different shops corresponding to the different services offered, including proximity to buyers. Any system of administered uniform prices, such as government maximum price regulations on traders' minimum resale price maintenance thus compels many sellers to charge more than they otherwise would.

The Minister of Food estimated[1] that in 1942 the total value of food sales (excluding chocolate and sugar confectionery, alcoholic drinks, and mineral waters) was about £900 million a year when the foods entered the chain of distribution in their finished state, and that they were sold for £1,350 million. By far the greater part was the cost of retailing. An estimate made by a group of Fabians for submission to the Census of Distribution Committee put the cost of distribution higher. 'An unknown part of the price of goods goes to pay for distribution. The relative division of effort between production and distribution shows that this part must be large. In 1938, £2,801 million was spent on goods from personal incomes. Probably over £1,000 million of this was paid for distribution.'[2] It was estimated that, under war-time conditions, in the confectionery trade the cost of retailing and wholesaling amounted to about one-third of the retail price.[3]

The publication of estimates of this kind shocked public opinion into realization of the magnitude of the national resources devoted, not to producing commodities, but to getting them from the factory or farm to the individual doorstep. Researches indicated, moreover, that the technical advances made in industry and agriculture had no counterpart in the field of distribution which was, indeed, becoming an increasingly costly business and not noticeably more efficient from the consumers' point of view. The trend of the inter-war period was one of more and more people each selling fewer and fewer goods. The conclusion of the group of Fabians was that 'during the decade 1927–1937, the goods handled per distributive worker increased by only ½ per cent. per annum, compared with the annual increase in production of 2½ per cent. in output per production worker'. Henry Smith's conclusion was that in the inter-war period 'the rise in the cost of distribution, reflected in the falling volume of sales per worker, continued until 1933 and was followed by a period in which the rising volume of total retail sales moved very closely parallel to the still rising total of distribution employment'.[4] Certain it is that not only the absolute number of those employed in the distributive trades greatly increased between the two wars but also the proportion of the

[1] *H.L. Debates*, 3 Aug. 1943, cols. 976–7.

[2] Fabian Publications Ltd., Research Series No. 108, *Distribution. The Case for a National Census.*

[3] *Industrial Record*, 1919–39, Cadbury Brothers Ltd.

[4] Smith, *Retail Distribution*, 2nd edition, 1948.

working population employed in distribution rose considerably.[1] In the U.S.A., on the other hand, between 1930 and 1940 considerable advances were made in the technique of distribution and the numbers employed in distribution represented a diminishing proportion of the whole.

In the conditions of chronic labour shortages, rising living costs, and persistent balance of payments difficulties following the Second World War, it was understandable that the cost of distribution should attract criticism. It was known that during the war the labour cost of distribution had been drastically cut. By 1944, when full labour mobilization for war purposes had been secured, one in four persons had moved from the distributive trades to alternative occupations. Yet, so soon as the war finished, the distributive trades began, once more, rapidly to expand. Throughout 1947, 1948, 1949, and 1950 the numbers listed as employed in distribution rose (2·7 per cent. from 2,523,000 in June 1948 to 2,592,000 in 1949, and to 2,610,000 in June 1950 a further 0·7 per cent.).[2] Reference has been made to the peculiar tendency of imperfectly competitive forces within the distributive trades to make for over-expansion in the sense of an absorption of resources in the industry beyond what consumers would voluntarily countenance. There is little doubt that this tendency was augmented by the difficulty of entering other fields of enterprise.

What effect might the proscription of resale price maintenance be expected to have on the distributive trades and on productive efficiency? The practice had frequently been defended as a protection of the small shopkeeper. This was a half-truth. There were numerous shops in Britain, exactly how many was not known, the scale of whose operations was so small that they had to be regarded as entirely uneconomic; these shops could continue to exist only where margins were guaranteed. Their operations were costly and often highly inefficient. Normally they kept no records and their proprietors made only a meagre subsistence; their sales were so small that high margins did not yield them an adequate livelihood. Such shops were not those found in sparsely populated areas, e.g. the village shop which had a low turnover of necessity because of the lack of a large neighbourhood custom. They providid an indispensable service for which those who used them had

[1] *Ministry of Labour Gazette*, Dec. 1933 and Jan. 1940.
[2] *Monthly Digest of Statistics*, Aug. 1951.

to be prepared to pay. In general, however, the United Kingdom is densely populated; this should be a factor making for low-cost distribution; proximity to customers can be combined, in these circumstances, with sufficiently large-scale operations. In practice, however, there were large numbers of tiny shops in densely populated areas using the same technique of selling and often the same premises as were used in the nineteenth century.

Information published in 1948[1] on the number of sugar registrations showed that in 1945 out of 147,044 shops selling sugar, 30,239, more than one in five, shops had fewer than fifty sugar registrations. The average number of sugar registrations was 291; multiple stores (firms with ten or more branches) averaged 603; co-operatives 1,124, while the independent retailers averaged 184. The case of butchers was even worse; out of 44,568 butchers' shops, 2,035 had a weekly retail turnover of less than £15; a further 5,126 had a weekly turnover of between £15 and £30. The average weekly turnover for all butchers was £77. Multiples averaged £97 weekly; co-operatives £91; and independent retailers £67. Meat rationing continued because of the shortage of foreign exchange, but this did not constitute any argument for the retention of this redundant capacity in the retail trade. The time when meat rationing could be abandoned could not be foreseen. In any case, to argue that redundant capacity should be kept in existence to await an increase in supplies was to argue in a vicious circle since an increase in imported supplies could only be obtained by earning increased foreign exchange by turning domestic productive capacity to the manufacture of exports.

Nevertheless, the Ministry of Food, in effect, by its margins policy prevented any reduction in capacity. Meat was bought and sold at wholesale on government account: maximum retail prices were set by the Ministry of Food. As the consumer ration was a value ration, butchers had no incentive to sell at less than the ceiling price; on the contrary, as the identification of quality and cut by the purchaser was a matter of some difficulty, meat could be sold at above the maximum price with impunity. That Ministry of Food margins were calculated to be sufficient to yield the marginal sellers an adequate return was shown by the fact that when the meat ration was increased butchers' margins were cut and vice versa. The case of meat is particularly striking because the

[1] *Annual Abstract of Statistics*, No. 84, 1935–46, Tables 225, 226, 227, 228.

arrangements were made by the Government, but the system was widely paralleled by the maintenance of uniform prices by private manufacturers and traders over almost one-third of the sales made as a result.

Besides increasing the overall cost of distribution, this system frustrated, as we have said, the development of new distributive techniques such as self-service and group wholesaling,[1] and the fragmentation of wholesale and retail trade with traders intent rather on securing a clientele particular to themselves than in competing in unrestricted markets, in effect prevented distributors from performing their essential economic function of accommodating centralized continuous production, supported by large continuous orders, with irregular, dispersed consumption.

There were several reasons why the great consumers' co-operative movement, traditionally the guardian of consumers' interest, failed to protect the public from restrictive practices and technical paralysis in the distributive trades. First, the movement was traditionally a workers' movement democratically controlled by co-operative members and thus not disposed to accept specialist advice and/or to pay for it; secondly, experience of boycott by trade associations under resale price maintenance agreements, where the dividend on purchases was regarded as price-cutting, induced an excessively cautious outlook among co-operators and a desire to propitiate the private traders; lastly, the co-operatives themselves shared, to a large extent, the view that narrower gross margins consequent on price competition would make the maintenance of a dividend payment greater than one shilling in the £1 (regarded in co-operative circles as the strategic minimum) unduly difficult. Those co-operators who held the view that net receipts were protected more by higher margins than by rapid turnover demonstrated the same lack of enterprise and dynamism as did the private traders. The co-operatives were, however, faced with a problem peculiar to themselves in being under engagement to pay a percentage dividend on purchases and not on capital values.

In the period under review, several co-operative societies, particularly in the London area, began to show a more enterprising spirit. The advent of a Labour Government and the adoption by the Labour Party of the ulterior social aims of the co-operative

[1] Hall, *Distributive Trading*, 1949, chap. v, 'Theory of Wholesale Distribution', and chap. vi, 'Wholesale Distribution in Practice'.

movement, the lessened interest of a better educated and more prosperous clientele in the club activities of the co-operative societies, and, finally, the threat to the co-operative movement presented by its failure to maintain its share of increasing retail business, induced the movement, in the post-war years, to reconsider its commercial practices. In 1949 and 1950 co-operative societies became pioneers in the opening of some one hundred highly successful self-service food stores. Voices were heard in defence of group wholesaling to increase competitive power. It was possible that this move for technical improvement in food distribution, particularly if price maintenance were made illegal, would bring about a revolution in the technique of food distribution and a consequent reduction in the cost of food distribution similar to that which had taken place in the U.S.A. in the 1930's. The danger was that unless protection was afforded by the abolition of resale price maintenance to those who reduced prices the non-co-operative sector would strengthen their forms of boycott of the movement or that the co-operative movement, fearing boycott, might proceed with excessive slowness and caution.

It was, then, with considerable justification that the new Monopoly Commission devoted itself during its first years to a consideration of trade practices. Productive efficiency in its widest sense was seen to depend on the avoidance of trading practices which inhibited technical advance in both production and trade and prevented the maximum freedom of entry.

By the mid-twentieth century the concentration of economic power was accepted as the normal evolution of the advanced capitalist system. The problem of monopoly was envisaged not only in terms of the traditional opposition of state power to private economic power, but also in a new guise: the limitation of entry and price regulation arising from a multitude of government controls inherited from the war period and continued in the name of full employment and the welfare state. In this system the trade associations and trade unions assumed the powers of negotiating matters affecting non-members and even of coercion without democratic review by members of the industry.

To describe the ultimate choice before the country as one be-

tween privately owned and publicly owned monopolies was, however, a gross over-simplification. To all but the most doctrinaire, public interest required and practical politics allowed the maintenance of competition in spite of the concentration of economic power, and this seemed to require three things: first, some means of preventing the acquisition of excessive profits by restriction of output where the scale of operations made this possible; secondly, the prevention of anti-competitive commercial practices designed to lessen the degree or distort the character of competition in order to increase the gains on one side of the market; thirdly, the discovery of a means of applying government control such that public sabotage of competition in supposedly competitive areas was avoided. The first two requirements arose from the opposition of state power to private economic power once economic power became concentrated in private hands: the third was the question of devising techniques of government interference with prices and the flow of supplies which would not replace the incentive to expand output and reduce costs and prices by the desire to lead a quiet life or the desire to manipulate the government price or allocation arrangements for private gain. Such were the complicated aspects of the monopoly problem in the post-war period, and their newness was accentuated by the unfamiliarity of all with the behaviour of economic forces in the full employment economy.

CHAPTER XIX

NATIONALIZED INDUSTRY

By H. A. CLEGG

IT is not easy to select from the many and varied public undertakings those which properly come within the scope of this chapter. The term nationalized industry has no unique definition. Nationalization involves public ownership, but not all publicly owned undertakings are nationalized. Only twenty years ago 'nationalization' (by which was meant management by a government department) was contrasted with management by a public corporation. Now industrial concerns managed by public corporations are 'nationalized' and contrasted with local authority undertakings, although both types of authority derive their powers from statutes and are responsible to Parliament for some, but not all, of their actions. (The main *legal* distinction lies in the appointment of board members, compared with the election of local authorities.) There are other difficulties. What is industry? The administrative departments are not industrial undertakings. Is the Forestry Commission? The Health Service is dealt with elsewhere in this book as a social service, but could it not be described as an industry at least as readily as broadcasting?

The only short cut through these difficulties of definition is to list the main undertakings which we propose to discuss. Government industrial establishments, with, in 1950, some 325,000 employees (excluding Post Office industrial staff) and the Post Office, with about 320,000, are nationalized by any definition, but they are long-established institutions, and since 1945 public attention has concentrated on the new public corporations (see Table opposite).

Nationalized industry is now normally taken to mean nationalized industries, that is, publicly owned undertakings which operate on a national scale. This is not logically necessary and not always correct. The term can be used simply to cover those industrial units which are nationally owned, as the term private industry is used to cover privately owned units. The usage has been determined by post-war legislation. Amongst concerns nationalized

before 1945 we may speak of the Post Office, the B.B.C. (1927), and British Overseas Airways as co-terminous with industries, but it is hardly possible to talk in the same way of the Central Electricity Board (1927), or the London Passenger Transport Board (L.P.T.B.) (1934). Their monopoly was over only one section of an industry. The Royal Ordnance Factories, the Admiralty Dockyards, and the Stationery Office are monopolies because of their peculiar relationship to one customer—the Government.

	Vesting date	*Approximate figure for total employees 1950*
The British Overseas Airways Corporation (B.O.A.C.)	1 Apr. 1940	16,000
The British European Airways Corporation (B.E.A.C.)	1 Aug. 1946	7,000
The National Coal Board (N.C.B.)	1 Jan. 1947	730,000*
The British Transport Commission	1 Jan. 1948	890,000
The British Electricity Authority (B.E.A.) and Area Electricity Boards	1 Apr. 1948	170,000
The Area Gas Boards and the British Gas Council	1 May 1949	140,000
The Iron and Steel Corporation of Great Britain	15 Feb. 1951	235,000 (Nov. 1951)

* Excluding workers in ancillary activities.

Two pre-war public corporations, the Electricity Board and London Transport, as well as a large number of local authority gas and electricity undertakings, have been absorbed by post-war nationalization Acts. Only three of these Acts might be said to have dealt with a section of an industry rather than with a complete industry: the Cable and Wireless Act, which foreshadowed the addition of external telecommunications to the Post Office's home monopoly; the Cotton (Centralized Buying) Act, which set up a separate board to take over one of the controls established during the war; and the Bank of England Act, the main purpose of which was to give the Treasury statutory authority over the Bank. These exceptions do not seriously modify the general pattern.

It is a commonplace that the development of national ownership before 1945 was little influenced by doctrinal considerations, except for the determination of Liberal and Conservative politicans

to deny that their measures were socialistic. The Post Office grew up in public ownership, and the decisions of Parliament to acquire for it first telegraphs and then telephones were determined in each case by the supposed economic and administrative advantages. The Central Electricity Board, the B.B.C., and the London Passenger Transport Board were set up as convenient devices for dealing with acute problems, such as the need for a national electricity grid, and the development of a satisfactory public transport system in London. No solution seemed possible without public control. Admittedly public control does not involve public ownership, but it was chosen as the most suitable form of control in these cases because of their peculiarities. The British Overseas Airways Act of 1939 in some respects came closer to the pattern of post-war legislation. Most earlier corporations had been almost entirely free from ministerial or parliamentary control, and this 'independence' had been regarded as an important virtue compared with departmental 'bureaucracy' and 'red tape'. Because there had been dissatisfaction with the relations between the Ministry and Imperial Airways, and because the new Corporation would require a subsidy, this Act gave the Minister considerable powers to interfere in its affairs. Otherwise, however, public ownership was again argued in specific and not general terms.

In post-war legislation ideology has played a larger part. In the past the central doctrine of most socialist theories has been the advantage of public as against private ownership and control of industry. The modern socialist theory of the 'mixed economy' seems to be that nationalization is necessary for 'basic' industries, and that other means of control suffice, at least temporarily, for other industries. Nationalization is the best means of ensuring that an industry is run in the public interest; all industries cannot be nationalized at once; and, therefore, the criterion of selection must be the importance of an industry to the economy which will determine the total amount of control, direct and indirect, secured by each individual nationalization act.

It is clear, however, that this has not been the only criterion. British experience of nationalization shows once more how one control leads to another. Public regulation of industry during the nineteenth century arose mainly out of the need of way-leaves for some industries. In return for the grant of compulsory purchasing powers, Parliament imposed obligations on those industries. Indi-

vidual Acts were followed by general Acts, amending Acts, and consolidating Acts, and, finally, almost the whole of this group of industries, the public utilities—roads, railways, canals, telegraphs, telephones, tramways, gas, and electricity—has been nationalized. For rather different reasons coal-mining was by 1945 one of the most regulated industries in the country—legislation on safety, maximum hours, minimum wages had been followed by attempts to reorganize, to institute district selling agreements and by the nationalization of royalties—and the industry had been subject to detailed government control during both world wars.

The take-over

Compulsory acquisition of property requires the sanction of Parliament which lays down terms of compensation. There is no standard formula, and in the post-war nationalization Acts several devices have been used to determine the amount of compensation. Where gas and electricity undertakings have been transferred from local authorities, the boards have taken over responsibility for the annual debt charge. This method was simple, but penalized the more economical local authorities who had paid off more of their debt than others. The compensation price of assets transferred from private owners has been more closely related to their value, which has usually been determined in one of two ways. Where whole undertakings are acquired, compensation has been paid to shareholders and has been related to the market value of the shares. Treasury-guaranteed stock of value equivalent to the highest quotation of the shares on selected dates prior to the transfer has been issued. Where some assets of undertakings have been acquired, compensation has been paid to the undertakings and the assets transferred have had to be separately valued.

The choice of a formula for compensation must be preceded by a decision as to the assets which will be needed for the activities which each board is to carry out. Since many private companies carry on activities which cut right across any theoretical divisions between industries, acquisition by company may saddle a board with assets which are only remotely related to its main purposes. But to avoid this involves two onerous tasks: a sharp distinction must be drawn between wanted and unwanted assets; and the wanted assets must be separately valued. Gas and electricity undertakings had not normally branched out into other activities. Acquisi-

tion by company was appropriate. The same method was used with the railways. Their subsidiary undertakings—canals, road haulage and road passenger undertakings, docks, and hotels—were in the field of transport, and could be entrusted to one or other of the Executives set up under the Transport Commission. Colliery companies, however, ramified into all manner of by-products, into iron and steel, and even into agriculture and general manufacturing industry. Their assets directly related to the process of getting coal were already listed under the profit-sharing agreements which went back to the twenties. Consequently these assets were compulsorily acquired, and a tribunal determined their total value as a lump sum, to be broken down between districts and between companies. Other groups of assets, however, could also be acquired, some at the option of the N.C.B., some at the option of the companies, and some by agreement. The resulting transfers have, in fact, brought the N.C.B. many responsibilities besides coal-mining.

Many steel companies were vertically organized—they included many or all of the processes of steel production up to the making of finished products, such as steel tubes. The purpose of the Act was to gain control of the industry by nationalizing the basic processes, but it seemed folly to break up integrated concerns. Accordingly a list of companies to be acquired was drawn up, excluding the smallest firms and firms whose interest was confined to the later processes, so that the Corporation has a monopoly only in the basic processes.

Stock Exchange quotations are not available for small firms, partnerships, or one-man concerns, which constituted a large proportion of the road-haulage undertakings acquired by the Transport Commission. Their fixed capital was small in relation to total turnover, so that the value of these assets would have been poor compensation for loss of livelihood. Consequently compensation had to be related to an average of profits over a period of years prior to nationalization.

The amounts paid in compensation have certainly not been so far from the mark as to cause a disruption of confidence. Complete fairness, as between a willing seller and a willing buyer, is not possible in a compulsory acquisition. 'Net maintainable revenue' —the phrase of the Coal Nationalization Act—may seem the most equitable basis of valuation, but any figure which is put upon it is no more than an informed guess. On that basis some industries

may have been cheaply acquired, but on the same basis it may now be said that the price paid for the railways and for some road haulage undertakings was too high.

Nationalized industries are acquired as going concerns, and new organizations had to be put into fair shape in order to take over responsibility on vesting day. After many years of debate opinion in this country had, well before 1945, settled firmly on the side of the independent corporation as opposed to the government department for running nationalized industry; but if this was not in doubt, the pre-war models were not, indeed could not be, exactly copied.

The most obvious differences between pre-war and post-war corporations are: the increase in size (the largest pre-war employer amongst them—the L.P.T.B.—has become only one, and not the largest one, amongst the undertakings of the Transport Commission); and the increased powers of the Ministers concerned. The responsible Minister has the legal right to give to a board directions 'of a general character', after he has consulted its members. In practice, without making use of this formal power, Ministers have often influenced decisions of the boards. The relationship between the national board and the first tier of subordinate authorities is the most important difference of organization between the various industries. At the lower levels the chain of authority proceeds upwards from the appointed manager of each unit of industry through appointed sub-area and area managers. (Each industry has chosen a different set of names for its geographical divisions.) In the two Airways' Corporations these chains reach national boards. In transport they reach the Executive of each service, which is the employer of those who work in the service, and manages the service subject to the overriding authority and financial control of the Transport Commission. In the three fuel and power corporations there are regional boards. Those of the coal industry were set up by the N.C.B. for its own convenience, and derive their authority only from delegation of power by the N.C.B. In electricity they are statutory boards which manage the distribution of electricity, subject to the authority and financial control of the British Electricity Authority, which directly controls generation and the national grid system. Gas undertakings vest in the regional boards which have the responsibility of balancing their own accounts. The Gas Council has narrowly limited powers, beyond

which it can act only as the agent of the boards or if a board fails to meet its financial obligations. The Iron and Steel Corporation has so far dealt directly with individual companies, although the Iron and Steel Federation, whose membership includes both public and private companies, continues to exercise considerable authority in the industry and thus complicates the pattern of organization.

There has been much discussion about centralization in nationalized industries from which little has clearly emerged except a strong trend away from functional boards (boards in which each member, apart from the chairman, has departmental responsibilities) towards policy-making boards. From an economist's point of view it is perhaps most important that although there are differences in organization between the various industries, they do not seriously limit the monopolistic position of any board. The monopoly of each Gas Board is almost as complete as that of the N.C.B., for each board has control of its own market. Restrictions on the use of monopoly power, in so far as they are not provided by the good sense and public spirit of the boards, must come from outside —from the competition of other industries—or from above—from the Minister, and those who can influence his use of his powers, particularly Parliament—and from the consumer's consultative councils and committees. These councils—in Coal, Iron and Steel, and Air Transport national councils, in Transport both national and regional, and in Electricity and Gas regional—are appointed by the Minister. They are advisory bodies although they can appeal to the Minister to use his powers of direction. So far they have not proved of great importance and have served mainly as public relations agencies. Relationships with Minister, Parliament, and consumer have also been the subject of wide and confused debate in which no satisfactory compromise has been discovered between the desire to ensure that the exercise of great powers shall be fully accountable, and the fear of subjecting boards to endless criticism, control, and red tape, and to the need to defend their every action to several masters.

Planning

Nationalized industries are expected to plan, and their monopoly powers enable them to plan more confidently than competitive private industry can. The act of nationalization is not, however, a

change from a game of pure chance to a completely calculable activity, such as draughts, in which the full consequences of each move can be worked out. It is a matter of degree. Even in the most fully planned industry unexpected events are certain to occur, and the plans must therefore be 'flexible'. Moreover, plans were already in existence. Even the smallest private undertaking makes some preparation for the future, and many of the undertakings taken over were neither small nor private. The Central Electricity Board had already laid plans for the construction of new generating plant in the post-war period. The present plan of the North Thames Gas Board is but a modification of the Gas Light and Coke Company's intentions to suit the inclusion of several previously separate undertakings. The plan for the development of the iron and steel industry was prepared and partly carried out under private ownership.

Post-war nationalization has widened the scope of planning and has brought planning under closer public control. It would be untrue to say that the plan of the Iron and Steel Federation, or development of gas and electricity undertakings, had previously been subject to no control, but the requirement that each industry shall draw up a long-term plan to be approved by the Minister, and that borrowing shall be subject to parliamentary sanction, along with the general powers of the Minister to appoint and to direct board members, increases the degree of control.

Because what happens in an industrial undertaking today, this month, or this year, is mainly determined by what has happened in the past, plans which involve great changes must be long-term. The same consideration—that the farther ahead one looks the greater the possibility of change—entails that the factors which must be planned for, markets, competition, technical development, are less calculable, and long-term plans must be 'flexible'. At the same time the achievement of plans depends on preparations, on orders, and on construction work which are put in hand at present. Plans in nationalized industries have been subject to all these limitations.

The long-term plans of the Gas Boards, which are expected to deal mainly with the development of grids in all heavily populated areas, are not yet prepared, yet since nationalization a considerable amount of work which forms part of that development has been started and some completed. Each project started necessarily limits

the flexibility of the final long-term plan. The controls contained in the Acts have been largely irrelevant because of the increasing tightness of general government controls over investment, which affect both private and public industries. The B.E.A. is unable even to carry out the full plans of its predecessors for the construction of new generating plant, and any scheme for a second grid is pushed farther and farther into the future. The railways have been prevented from putting in hand any large-scale development work and have decided that within the limits of the general investment programme they must content themselves with current maintenance. The major investment of the Airways' Corporations is in aircraft, and here the rapidity and uncertainty of technical development limits the time-period of planning and the effectiveness of control.

The Government's investment programme has not limited the N.C.B. More coal has been considered a first priority, although some critics hold that money would be better spent on developing more efficient means of using coal or alternative sources of power. The N.C.B. is also, apart from Air Transport, the senior postwar nationalized industry, and has had more time to plan. In 1951 it produced its provisional long-term plan. The plan was less optimistic about both total output and possible reduction in manpower to produce a given output than many interested in the industry had hoped. This may have been partly because it was concerned only with construction, so that it did not 'plan' changes in intensity of effort, in absenteeism, in relative wage-levels, or in technical development, but made assumptions that 'unplanned' elements would either remain stable or improve slightly in order to calculate the effects of various schemes of construction. The authors of the plan make clear that they recognize planning may be a circular activity. Some of the factors about which assumptions must be made in order to plan will be affected by the decisions made in the plan. The main tools of the planners have been provided for them by a far more intensive survey of coal resources than ever before, and the preparation of cost-ladders showing the expected costs of various levels of output in each area. Once demand is estimated the most economical method of supplying it can then be determined from the ladders. The N.C.B.'s intentions are to concentrate labour on the larger collieries, many of which are to be reorganized, and some of which are being sunk or are to be sunk,

to concentrate further on the expanding fields of Yorkshire and the Midlands, and to continue the transfer from old to new areas in Scotland. Expected costs have determined the main outlines of the plan, but in one or two areas economy has been tempered by the desire to avoid upheavals in old mining communities. The planners insist that the plan is flexible. This can mean no more than an expression of willingness to change decisions when assumptions prove incorrect, in so far as the starting or completion of individual projects does not prevent it.

Funds are required for development. The borrowing powers of the boards are limited by Parliament, and the N.C.B. cannot issue its own stock, but must obtain funds from the Treasury which issues government stock to raise the money. (The cost of much of the N.C.B.'s development so far has been met from its own funds, e.g. provision for depreciation.) Interest payments on the stock of all the boards are guaranteed by the Treasury. By allowing gilt-edged securities to be issued as compensation for equity holdings, the cost of compensation to the industry can be reduced, and, so long as the guarantee is not called upon, to the nation. The guarantee also permits the nationalized industries to raise capital more cheaply than private concerns. Redemption of capital in addition to interest payments, however, raises the cost of borrowing. All the boards, except the Iron and Steel Corporation, are obliged by statute to provide for depreciation and for redemption of capital. Some of them consider redemption payments as part of their provision for depreciation, but the N.C.B. and the Transport Commission are redeeming capital, over fifty years and ninety years respectively, as well as making annual provision for depreciation, thus burdening themselves with the cost of a gift to future generations. On the other hand, the nationalized industries have standardized the varied practices they inherited by relating depreciation provision to 'historical' cost, which is far below current replacement cost. In this way they are mortgaging the future for immediate benefit. The proper basis for depreciation is a matter of dispute amongst accountants, but the decision of the Transport Commission to give up the general practice of the railways of calculating depreciation at current cost and to return to 'historical' cost (thus saving themselves, on paper, between £8 and £9 million a year) has been criticized. Because of its high rate of investment the B.E.A. has been even more strongly attacked on this score. If

the distribution of the country's capital between industries should be determined by the rate of interest, these confused practices would mean that the share of each board in the total would be right only by chance. Investment controls, however, are here for some time to come. And one of the arguments for nationalization of coal and railways was that they could not compete on the capital market, that the lack of confidence amongst investors in declining industries prevented economically desirable investment.

Planning is also taken to cover co-ordination between industries. In the fuel and power group the boards are independent save for their common ties with the Minister of Fuel and Power. Centralization of control and the continuation of war-time preparation of statistics has placed each industry in a better position to estimate the supply of and demand for coal, and consultation has taken place between the boards on types and quantities of coal which are required and can be delivered. But each industry continues to make its own decisions on development, and the various forms of fuel remain competitive, although competition is affected by coal and coke shortages, by electricity cuts, and by heavy taxation on gas and electricity appliances and periodic restrictions on their sales.

Co-ordination is of major interest in transport. Perhaps the most popular argument for transport nationalization was that it would allow rational use of road and rail to replace 'wasteful' competition, and the Commission was enjoined by the Transport Act which constituted it 'to secure or promote the provision of an efficient adequate economical and properly integrated transport system'. To this end 'all the business carried on by the Commission' was, for financial purposes, to 'form one undertaking'. Integration was understood to involve the concentration of road passenger and freight services on smaller loads and shorter, or cross-country, journeys to replace branch lines and to feed the main and long-distance services of the railways. Little has yet been done to carry out such a scheme. A few of the most uneconomic branch lines have been closed, and in July 1950 the Transport Commission issued a 'statement of policy' on the 'integration of freight services by road and rail' which gave the Commission's view of the suitability of each form of transport for different services, and gave an outline of its intentions for the interchange of responsibilities between the Railway Executive and the Road Haulage Executive. Some of these transfers are now being arranged. However, the

rational use of road and rail services can clearly not be considered apart from charges, and to these we must now turn.

Prices

The Coal Industry Nationalization Act (1946) laid down that 'the policy of the Board shall be directed to securing . . . that the revenues of the Board shall not be less than sufficient for meeting all their outgoings properly chargeable to revenue account . . . on an average of good and bad years'. The wording of subsequent Acts has differed, but the principle appears to remain the same.

The boards have not, however, the power to determine prices at a level sufficient to secure this objective. Under the Supplies and Services Act they are subject, as are private industries, to any orders governing prices that the Government chooses to make. Apart from this the Minister concerned may well consider prices a matter for the exercise of his powers of direction. The Transport Tribunal, which succeeds to the functions of the former Railway Rates Tribunal and certain other quasi-judicial authorities in the field of transport, has the power to review any charges schemes proposed by the Commission, and the Act lays down procedures for giving notice and for hearing interested parties. Some other boards are instructed to refrain from giving 'undue preference' to any customer, without provision of special tribunals to determine whether charges do give such preference. Air Transport charges are not settled by the boards, or by the Minister, or by a Tribunal, but by the International Air Transport Association, with which the boards must negotiate any increase they desire to impose.

Although they are monopolies, the boards meet competition. Certainly air transport is competitive. The N.C.B. exports coal to the Continent where it has no monopoly. (And the high prices which it has been able to charge in the export trade have been the chief source of such profits as it has made since 1947.) The Transport Commission meets competition from private hauliers, who may still operate under licence within a restricted radius, and heavy competition from 'C' licence vehicles (vehicles used by firms not otherwise engaged in transport to carry their own raw materials, finished products, &c.), whose numbers have expanded rapidly since the war.

Amongst the 'outgoings properly chargeable to revenue' are not only direct costs of production, welfare services, pension schemes,

proper provision for maintenance, for interest on capital, and for redemption, but also taxes and rates, from which the boards are not exempt. So long as revenue and expenditure are balanced, liability to income tax and profits tax should not be heavy. The Transport Commission and the B.E.A. pay a lump sum in lieu of rates, the total being calculated by a formula which allows for increase as the average of rates over the country increases, and for distribution to the rating authorities in proportion to the rateable values of their areas.

In a period of rising prices and costs the very existence of a system of controls increases the difficulty of balancing accounts. The strict war-time control of prices in all the industries which have since been nationalized left the boards with little margin when they took over. In fact, it was clear that prices would have to be raised immediately, or in the near future if the N.C.B., the Transport Commission, the B.E.A., and the Gas Boards were not to sustain heavy losses in their first year of operation. But controls mean delay. The N.C.B. is still paying off the heavy losses of its first year, for which it felt it was not to blame. 'The Minister scaled down the price increases which the Board had recommended; and the increase in price to cover the effects of the Five-Day Week was not introduced as soon as the Board would have liked.'[1] The accounts of the first year of the Gas Boards[2] showed that the losses of some boards had not quite been balanced by the profits of others. By far the heaviest loss was that of the South-Western Board which revised its tariffs, as it thought, in time to balance its accounts over the year. The legality of the notice of increase was challenged, and rather than fight the case in the courts the Board withdrew the notice, repaid the difference between new and old tariffs where customers had already been charged under the new scheme, and reissued a revised notice. The losses over the year are at least mainly attributable to the consequent delay of several months in raising charges. It is, however, the Transport Commission which has complained most bitterly of the delays inherent in price-controls. It is the only major British industry which has had to face a decline in demand over the years of full employment since the war. As costs have risen it has had to make several claims for increases in charges, particularly those of its major under-

[1] *Annual Report of the National Coal Board*, 1947, p. 124.
[2] *Annual Report of the Gas Council*, 1948–50.

taking, the railways. Where flat-rate increases have been proposed the Minister has had to consult the Transport Tribunal before sanctioning them. Where the increases have been part of a 'scheme' of charges, the full procedure of a hearing before the Tribunal has had to be followed. Deficits accumulate during delay, and increases which might have been sufficient if applied immediately, may well prove insufficient to recoup these losses.

Many socialist theorists have expected nationalized industries to price their products above or below average costs, either because marginal cost is a better guide to the socially desirable price, or because planning authorities might wish to divert demand from socially undesirable expenditure towards socially desirable expenditure. Apart from subsidized Air Transport, the obligations placed on the boards rule out subsidies between nationalized industries, but they do not prevent one type of coal or one coalfield bearing part of the cost of another, and they certainly do not prevent the use of road transport to subsidize the railways. In fact, it is clear from ministerial statements on the bills nationalizing these two industries that something of that sort might have been expected.

Practices such as these are criticized on the grounds that unless each section of a service or each type of product bears its full cost, resources will be misused. Demand for products sold below cost will rise, and fall for products sold above cost. There will be pressure to expand output of products sold at a loss in order to meet demand, and to contract elsewhere. The evil effects may be avoided internally by basing decisions on an accurate costing system, externally by rationing, but such mechanisms are likely to be less effective the more they diverge from the price-structure. On the other hand, it would be administratively impossible to charge each customer the exact cost of supplying him with, say, a ton of coal, or a given rail journey. *Some* standardization is necessary.

It would be quite wrong to think that nationalization replaced a system of prices determined on a fully competitive market by a system of planned prices. In each of the industries which have been nationalized prices, before nationalization, were by no means determined by competition. Statutory gas and electricity undertakings—the vast majority of such undertakings—had complicated tariffs which had been subject to price and profit control since the nineteenth century. Railway rates were far more complicated even than these tariffs, and even more closely controlled. During the

thirties statutory district selling schemes had been set up in the coal industry under the 1930 Mines Act, and the iron and steel industry had official blessing for similar action. War-time price controls and flat-rate increases had further 'warped' price structures, and the operation of the Coal Charges Account, which was used to compensate each district for the unequal incidence of flat-rate price increases and of general wage increases, and to subsidize directly the worst-hit colliery companies, had gone far to insulate that industry from all the customary influences of the market. Amongst the consequences was that the rarest coals with the highest labour cost could be economically used by many consumers because they were subsidized by the cheaper and more plentiful coals which they would otherwise have found it best to use, and the shortage of the former coals was thereby increased. The problem of the boards has, therefore, been rather to rationalize systems of price-adjustment which have been getting out of hand than to replace a free market by planning.

Accordingly, the boards have followed a cautious policy of standardizing systems of charges, and at the same time relating prices more closely to costs. The N.C.B. inherited a great variety of pre-war coal prices further complicated by the operations of the Coal Charges Account. It decided to standardize pit-head prices for each type of coal, thus discovering where it was produced at a loss and where at a profit, and allowing delivered prices for each type to vary only with transport costs. In 1951 this system was modified for the domestic consumer. Prices were standardized for eight groups of domestic coals, and in each of some sixty 'zones' ohe 'zone-delivered' price was fixed for each group, so that transport charges were standardized within zones. The N.C.B. has also increased by stages the difference between the prices of various types of coal. This has had the effect of reducing the spread of profits and losses between its divisions, although it is doubtful whether the relative cost of the best and rarest coals is yet sufficiently high to secure the best use of resources, and the variation in profits and losses between pits remains very great.

The B.E.A. has drawn up a uniform tariff for charging for bulk supply to its Area Boards, to which is added a fuel cost adjustment, so that each board's activities may be regulated according to the cost of the most important element in generating costs, and the element which varies most from area to area. Area Electricity

Boards and Gas Boards have had to increase their charges from time to time to customers in order to cover rising costs. They have not devised entirely new schemes of charges, but have taken advantage of these occasions to work towards a standard form of tariff and to eliminate the highest and lowest charges in each area. The result is a considerably simplified structure in which the remaining differences between charges to different classes of consumers and different localities vary roughly in accordance with costs.

In the winter of 1948–9 the Cabinet, following a report of the Clow Committee,[1] persuaded the B.E.A. against its judgement to impose a surcharge on electricity consumption to be repaid by rebates in the summer months as a means of discouraging heavy consumption during cold weather. It was generally held that the view of the board was confirmed by the experience, and the experiment has not been repeated. However ill-advised this scheme, there remains the problem of heavy demand for electricity at 'peak' periods during cold days, which often can only be met by 'load-shedding'. If prices were to reflect marginal cost, they would rise sharply for all connected consumers as the point of load-shedding was approached. It may be impossible to effect this in a manner better than rough and ready, but the B.E.A. has set its face against any further attempts to reduce peak demand through tariff variation, and in fact retains pre-war tariff systems designed to promote consumption.

A new price structure in transport is to be one of the most important methods of achieving a rational use of road and rail. The Transport Commission, however, has been even more cautious than other boards and has so far been mainly concerned to obtain flat percentage increases in rail and road charges in order to meet rising costs. The first instalment of a charges scheme for the London area has been introduced with the intention of reducing or removing differences between suburban main line charges and London Transport underground charges. Further schemes for London Transport and for the main line railways were submitted to the Tribunal in 1951, but they are in fact schemes for raising revenue, not for promoting integration. Larger schemes are still awaited. It is well known from previous attempts that railway charges are far too complicated to be rationalized in a hurry. To

[1] Cmd. 7464, 1948.

integrate them with road transport charges is an even more difficult task, but the financial condition of the Transport Commission should be a spur to speedy action. Freight charges for road and rail have both been raised, but not integrated.[1] Road passenger transport fares are controlled by Regional Traffic Commissioners. The Transport Commission has barely started to make use of its powers to prepare co-ordinated road passenger transport schemes by area, although it controls many of the road passenger transport undertakings not in the hands of local authorities. A rationalized scheme of road and rail passenger fares is even farther off than a scheme for freight charges.

Price increases are unpopular and are likely to arouse criticism. Critics have argued that, despite controls, the boards have used their monopolistic powers, not indeed to make large profits, but to cover unnecessary costs at the expense of the consumer. The only final answer which the boards could give them would be a demonstration that they are, in fact, efficient.

Efficiency

In the physical sciences efficiency may be an exact term. Economic efficiency, however, is a matter for judgement. Any index which may be constructed to serve as a measure of it, for instance, one showing output per man-hour, or the relation of proceeds to costs, leaves so many relevant factors out of account that no sensible person would think of it as more than a useful aid to forming an opinion about trends of efficiency. Relevant factors include, for instance, administrative arrangements, planning, and prices.

The boards have no single purpose against which performance can be measured. The N.C.B. has the statutory duty of 'making supplies of coal available in such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects', in addition to its obligation to balance its accounts, to look to the 'efficient development of the coal-mining industry', and to enumerated duties towards its employees. If it needed to concern itself only with prices, it

[1] Railway freight charges have traditionally been related to the value of goods carried rather than to the cost of carriage. (The companies aimed to cover average costs over their whole service and not for each class of freight.) Road haulage charges, on the other hand, have been fixed on a competitive basis and, therefore, much more closely to the cost of transport.

could improve 'efficiency' greatly by reducing quantity, by closing all its high-cost pits, but if it is to be judged by its performance in all these duties, exact calculations of efficiency are clearly impossible.

The long-term investment programmes of the nationalized industries are intended to improve efficiency. Since the programmes must cover many years, and most of them have been delayed or shelved owing to investment cuts, it might seem that judgement must be suspended. But this cannot be the whole story. Investment itself may be inefficient. It might be desirable to put more money into atomic development and less into long-term mining projects. And we cannot afford to wait. The needs of post-war reconstruction, of the export drive, and more recently of rearmament, have made the Government and the country demand rapid increases in productivity of all branches of British industry. Some industries have been spectacularly successful. Failures or apparent failures in the nationalized industries have been widely criticized, all the more because nationalization is a live political controversy, and its opponents make capital where they can.

The Airways' Corporations took over from a war-time organization which had been required to serve military needs and not to count the cost. During their first years the losses of B.O.A.C. and B.E.A.C. far exceeded the subsidies provided by Parliament. Part, but only part, of their difficulty was their inability to obtain suitable aircraft. Since 1948 the trend of statistics of operation and commercial results have steadily improved. Staff has been greatly reduced, and the small British South American Airways Corporation has been amalgamated with B.O.A.C. This has been achieved despite rising costs, international price control, and continued difficulty in obtaining satisfactory aircraft. Criticism has died away.

The upward trend of productivity and the downward trends of relative prices in gas and electricity have been fairly continuous over a considerable period. On the average electricity is little more expensive than in 1938; gas tariffs have risen less rapidly than the general price level. For these reasons the gas industry has come in for little criticism, and criticism of the electricity industry has not been concentrated on its general efficiency. To meet the peak demand problem, the B.E.A. has placed its hopes mainly on a rapid increase of generating capacity. Expanding demand and capital cuts have continually postponed this solution. Consequently

the B.E.A. has been criticized for failing to make a determined effort to solve the problem in other ways.

The decline of coal production and productivity during the war was one of the most serious problems on the home front at that time, and its urgency was emphasized by the costly coal crisis of 1947. Both trends have been reversed by the N.C.B., but since coal has remained in short supply this progress has been criticized as too slow. Moreover, although coal prices have not risen as rapidly as general prices since 1947, the considerable increases between 1940 and 1947, mainly to pay for improvements in the wages and conditions of mineworkers, have made coal relatively far more expensive than before the war.

Criticism of the Transport Commission has been even stronger than that of the N.C.B. The railways suffered heavily from road competition before the war, throve on the expanded traffic of war years, and have since suffered some decline in demand even in a period of full employment and of an expanding national income. Although charges have not risen as rapidly as the general price-level since 1938, there have been stiff increases, especially in freight rates, since the war. Despite this, and reductions in staff, the Railway Executive has run at a loss and the Transport Commission has failed to make good this deficit from its road services, which also ran at a loss in 1949, largely because during that year the Road Haulage Executive was swallowing private undertakings at an indigestible rate.

The criticisms of the B.E.A. for its failure to install devices which might help it to deal with the problem of load-shedding and also for its refusal to allow private industry to use certain types of generating equipment are clearly matters for technicians, as are criticisms of the N.C.B. for failure to use or to use on a sufficient scale certain types of coal-getting machinery. The major criticism of the N.C.B. and the Transport Commission has, however, been that they have failed to achieve a more productive effort from a given labour force, or the same effort from a smaller labour force.

Costs and industrial relations

The nationalized industries are exceptional amongst British industries for the high proportion of their wages, salaries, and other labour costs to their total costs. Electricity is the only important exception to this statement. In the gas industry labour costs are

about 50 per cent. of total costs. In transport the proportion is well over half, and in mining roughly three-quarters. This naturally reinforces the emphasis placed on the need for improved effort from the labour force and provides the background for an unusual prominence given to industrial negotiations and industrial disputes.

For the same reason economies in other directions, from centralized purchasing and from standardization of equipment, have not been of first-order importance in the last three industries. On the railways there was probably little more to achieve in this direction. In mining and other nationalized industries considerable economies have been claimed, but they have been swamped by rising costs. And the result of such changes has not always been a saving. In 1947 the Coal Board made a serious error in ordering from the U.S.A. large quantities of belting which would have been obtainable in this country, and several nationalized industries have found that centralization of purchase of small items of equipment may cost more in annoyance and delay than it saves in reduced prices.

Apart from mining, the nationalized industries belong to the group of inter-war 'sheltered' industries whose workers suffered a decline in wages and earnings during the war period. Workers in electricity have since gone some way and in gas most of the way to recover their pre-war position in relation to the national average. For reasons given above, however, this has been achieved at small cost to the consumer, and has occasioned little public outcry. For all this, both industries have experienced industrial disputes as important as any in their relatively strike-free history. Demarcation disputes between unions have occurred in the electricity industry and in other nationalized industries. Many of them, and a number of disputes over wages, have arisen out of reorganization carried out by the boards. Some unions have not shown a marked anxiety to avoid trouble. Of the four major unions with which the Electricity Authority has to deal, one, the Electrical Trades Union (E.T.U.), is 'Communist-dominated', and another, the Amalgamated Engineering Union (A.E.U.), has a considerable proportion of Communists and other 'left-wingers' amongst its leadership. The major dispute in the gas industry has been a strike of the north London engineering maintenance staff, in September and October 1950, which is almost the only area of strong Communist influence in the industry.

'Communist influence' will not, however, serve as a sufficient

explanation for industrial disputes in mining and transport. Both the railways and the mines were declining industries between the wars, and experience then has left its legacy of bitterness and a defensive attitude amongst the workers and the leaders of their unions. In road haulage wide variations in conditions have been suddenly replaced by uniformity and the Executive has had to put an end to methods of operation contrary to the law which enhanced both profits and earnings.

Wages and earnings in mining rose rapidly from their low pre-war level in the later years of the war and in 1946 and 1947, until coal-mining became the highest-paid manual occupation in the country. Thereafter wages remained steady until further increases of 1950 and 1951 in sympathy with the general wage-level, but earnings continued to rise, partly because the long-awaited five-day week agreement of 1947 was soon followed by an agreement to work longer hours or to work an extra shift on Saturday at over-time rates due to the overriding need for increased coal production. Higher incomes, improved conditions, supplementary payments for injuries and compensation for loss of work when collieries are closed, to which has recently been added an agreement 'in principle' on a supplementary pensions scheme, have failed to bring industrial peace. Disputes over minimum wages (in Scotland 1950), over earnings in kind (concessionary coal in Lancashire 1949), over the reorganization of pits (Waleswood 1948), over rearrangement of work (Grimethorpe 1947), and over a host of other issues have continued at something like the rate of the thirties, despite the Order which, until August 1951, made almost all strikes illegal.

The proportion of total production which is lost through disputes is, however, not large (rather over a million tons in 1949 and rather less in 1950). Absenteeism has been a far greater problem, although there are serious differences of opinion over what proportion of absenteeism is 'avoidable'. The Coal Board has tried various means of influencing its employees to more regular attendance without great effect on the overall percentages. Even the payment of an extra shift's wages for five shifts' work under the Five-Day Week Agreement caused little improvement. The National Union of Mineworkers (N.U.M.) has refused to accept responsibility for disciplining its own members (which it accepted in the war-time pit production committees). It almost seems that a

fairly high rate of absenteeism must be accepted in conditions of full employment and at current rates of earnings.

Other means of increasing output and productivity have been tried. The working of an overtime shift has produced some more coal at great cost. Total output and productivity have risen, but only slowly. There has been considerable difficulty in pursuing both objects at once. Coal could be produced much more cheaply if uneconomic pits were not kept in production. If they were closed the coal shortage would be more acute. In its early years the Coal Board set out to solve the coal shortage by attracting more labour to overcome the decline in the labour force and particularly in juvenile recruitment which had persisted since the inter-war years of unemployment. Despite high wages it fell far short of its target. In 1949 and 1950 it seemed content to allow its labour force to decline and to concentrate on improving productivity which rose fairly rapidly while total output rose slowly. At that time this policy had considerable support. There was a general fear that high export prices could not be maintained. Rearmament, however, changed the picture both at home and abroad, and in 1951 a minor fuel crisis emphasized that the first need was once more for a rapid increase in total output.

The rate of strikes on the railways has been much lower than in the mines, but there has been a continuous threat of conflict between the Executive and the unions, which must have adversely influenced attitudes to work. On the whole the leaders of the N.U.M. have condemned strikes, and have tried to improve relations and to encourage greater effort, in line with the general policies of the T.U.C. All railwaymen but the lowest paid, however, have failed to regain their pre-war position in the scale of wages, and the largest union, the National Union of Railwaymen (N.U.R.), has pressed the claims of its members for an increase ever since nationalization, sometimes with and sometimes without the support of the unions of salaried workers and foot-plate staff. The Executive, on its side, has faced a recurring deficit and has seen an obstacle to increasing efficiency in the rigorous agreements on promotion and redundancy and in various working customs. Railwaymen, feeling themselves already ill treated, have clung all the more tenaciously to their 'rights'. Neither side can claim much credit for its part in the long-drawn-out negotiations, and a settlement early in 1951 (followed by a rise in freight rates) has done no

more than postpone trouble. Re-allocation of staff between the railways and road haulage, intended to facilitate the integration of freight services, may contain the seeds of several conflicts.

As in the mines, manpower policy has not remained constant. For three years the Executive sought, within the limits of restrictive agreements, to promote efficiency by reducing staff. In 1951 an increased volume of freight due to rearmament revealed a shortage of labour which will certainly not be overcome by the attractiveness of railway work.

A difficulty of national negotiations in all nationalized industries has been that unions have sought to bring the pressure of the Government—a Labour Government—to bear on stubborn boards. The boards, on the other hand, have sheltered behind official government appeals to employers and unions to refrain from general wage increases. Cabinet Ministers have intervened behind the scenes, or even openly where concessions have required price increases which they alone can sanction. Such action has strengthened neither the authority of the boards nor the confidence of their employees. The very existence of a policy on wages backed by no more than exhortation, and, therefore, followed most closely in industries under government control, has been a contributory cause of difficulty.

The experience of labour relations in nationalized industries has necessarily disappointed socialists who held that nationalization would bring a radical improvement in this field. By 1945 the old policies of workers' control and guild socialism were out of favour in the Labour movement. The predominant view was that the desired results would be achieved instead by consciousness that private profit was no longer the object, and by methods of 'joint consultation'. To this end the obligation of the boards to consult with representatives of their employees over matters of efficiency, welfare, and training was written into the Acts, and, in each industry a new hierarchy of consultative committees has been established or the old negotiating bodies have been extended to serve the new purpose.

Results, by and large, have been disappointing. The N.U.R. and sections of the N.U.M. have reverted to demands for more workers' control without giving any clear account of the methods by which it is to be attained. The relative success of consultative methods in the Airways' Corporations, and in some individual establishments

in other nationalized industries, seems to show that results can be achieved if managers have the skill and initiative to make full use of them. In standards of management, however, the years of decline between the wars have left the railways and the mines with a legacy which cannot be dissipated overnight. In so far as good labour relations depend on those standards, improvement will take time.

Conclusion

The government industrial establishments, which serve government departments, are very different from the ordinary run of industry, but not so the Post Office, which deals with the public and, apart from the administrative services which it carries on for other departments, must be judged by commercial standards. Before the war, at the time of Lord Wolmer's agitation,[1] the departmental organization of the Post Office was widely criticized as an inefficient form of management for an industrial undertaking. Some reorganization followed the publication of the Bridgeman Report,[2] but the Post Office has continued to run as a government department, subject to a Minister, to parliamentary question and debate, and staffed by civil servants; its charges and its investment are still determined by the 'dead hand' of Treasury control and by parliamentary votes. The public corporation, the form of organization which was to avoid all these evils, has been chosen for all newly nationalized industries. A comparison of the constant criticisms of these industries, and the apparent contentment of the public and the Press with the working of the Post Office (a contentment not shared by its employees, who, being also workers in a 'sheltered' industry, have lost many of the relative advantages in wages and security which they enjoyed before the war), raises doubts about the enormous advantages which have been claimed for the public corporation as a form of industrial management.

Part of the explanation of this constant criticism is party political controversy. Besides this the boards, particularly the N.C.B. and the Transport Commission, have had to carry out enormous tasks of reorganization in very difficult circumstances, so that some friction and some mistakes have been inevitable. But is this the whole explanation?

[1] Lord Wolmer, *Post Office Reform*, 1932.
[2] Cmd. 4149, 1932.

The administrative problems of a large programme of nationalization could not be clearly foreseen. The experience of the last few years has caused many critics to suggest that the forms and mechanisms chosen are unsatisfactory and to suggest innumerable alternatives, most of them intended to effect 'decentralization'. The defence of the boards is that the chosen forms have hardly yet been given a chance. Both sides would agree, however, that the problems are not yet solved.

The savings obtained by transforming equity capital into gilt-edged and by centralized commercial arrangements are real, but small compared to the totals involved and may easily be swallowed up in rising costs due to a rising price-level, wage increases, or falling demand.

The excision of private interest may solve some problems, but there is still room for controversy over the nature of the public interest—between the boards, the Cabinet, Parliament, the unions, and consumers. The division of power between each board and its Minister enables a controversy of this sort, as in the electricity industry, to reduce very seriously the value of long-term planning. No one, however, would deny that without the research, the planning, and the investment undertaken by the Coal Board, the condition and prospects of the coal industry would be far worse than they are.

The cautious movement of the boards towards covering the cost of each service or product by its price has been generally approved. But many problems of price policy remain unsolved. How far should this trend go, given public dislike of extreme variations in price and their administrative difficulty? How far should prices be controlled by outside bodies? Can electricity's peak load problem be solved by tariff variations? Unless far more radical alterations in transport charges are proposed by the Transport Commission, road-rail co-ordination will remain a hope.

Nationalization has certainly not improved labour relations as socialists had frequently predicted. Disputes arise about many of the matters which caused trouble before and about some of the changes introduced under nationalization. The methods used to settle them are not markedly superior to the practices of many private industries. If methods of joint consultation can bring about the desired improvement they are not yet used to full effect.

NOTE ON STATISTICS

The following figures may serve to support some of the statements made in the text of the chapter:

Prices

	1938	*1947*	*1948*	*1949*	*1950*
London and Cambridge Economic Service Retail Price Index . . .	100	160	173	178	184
Average pit-head price of coal	100	232	272	276	275

	1939	*July 1946*	*Oct. 1947*	*May 1950*
Rail passenger charges .	100	133⅓	155	155
Rail freight charges . .	100	125	155	181

	1938–9	*1947–8*	*1948–9*	*1949–50*	*1950–1*
Electricity: Average revenue per unit sold . .	100	108	112	114	112

The *Annual Report* of the Gas Council for 1948–50 (p. 84) quotes a letter of the chairman of the Council, written to *The Times* on the 'eve of nationalization': 'Taking the country as a whole the price of gas is from 50 to 70 per cent. higher than it was in 1938.' Tariffs have been raised further since that date.

Production

	1938	*1947*	*1948*	*1949*	*1950*
Interim Index of Industrial Production (1946 = 100) .	—	108	121	129	140
Deep-mined saleable coal .	100	82	87	89	90
Railways: Passenger miles .	100	121	112	111	Not comparable
Railways: Ton miles of freight	100	124	132	134	Not comparable
Electricity generated at public supply power stations .	100	175	191	202	226
Gas: Total available at gasworks	100	139	146	149	158

		1947–8	*1948–9*	*1949–50*	*1950–1*
B.O.A.C. capacity ton miles .	—	100	130	149	177
B.E.A.C. capacity ton miles .	—	100	132	187	246

Productivity

These figures are offered subject to the strong caution on the use of figures relating to productivity on page 440.

	1938	*1947*	*1948*	*1949*	*1950*
Coal: Output per man shift overall (tons)	1·14	1·07	1·11	1·16	1·19

		1947–8	*1948–9*	*1949-50*	*1950–1*
B.O.A.C.: Capacity ton miles per employee	—	100	141	184	258
B.E.A.C.: Capacity ton miles per employee	—	100	134	209	253

The *Twentieth Report* of the Electricity Commissioners (p. 34) states that the electricity supply industry employed 122,237 workers at 31 March 1939. At 31 March 1951 the B.E.A. employed 176,200 workers. In so far as these figures are comparable, numbers employed increased by 44 per cent. while electricity generated went up by 126 per cent.

In July 1939 the gas industry employed 124,689 workers (P.E.P., *The British Fuel and Power Industries*, p. 175). At 31 March 1950 the total number of employees of the Gas Council and Area Boards was 140,611. Subject to the same qualification, numbers employed increased by 13 per cent. over much the same period as that in which output of gas went up by 49 per cent.

Measurement of productivity in transport is an even more complex task than in other industries. To quote one or two simple series of figures could only be misleading. The reader is referred to figures given in the Annual Abstracts of Statistics and in the Annual Reports of the Transport Commission and to discussion of the subject in the text of those Reports (e.g. pp. 59–69 of the *Annual Report* for 1950).

Sources: Annual Reports of the Boards, Annual Abstract of Statistics, 1938–49.

Earnings. Since most of the nationalized industries employ relatively few women, the best figures for comparative purposes are earnings of adult males. If figures of earnings for all workers are used, the more rapid increase of women's earnings since 1938 would make a comparison between each nationalized industry and the national average unduly unfavourable.

	Oct. 1938	*Oct. 1950*
All industries (excluding coal-mining, railways, docks): Men	100	218
Electricity: Men	100	198
Gas: Men	100	206

	Mar. 1939	*Apr. 1950*
Railways: Adult male conciliation staff . .	100	201

	1938	*1950*
Coal-mining: All workers	100	313

Source: Ministry of Labour Gazette.

CHAPTER XX

DEVELOPMENT COUNCILS: AN INDUSTRIAL EXPERIMENT

By P. D. HENDERSON

EARLY in 1894 *The Economist*, in an article on 'The Advance of State Socialism', complained that 'Cobden would hardly recognize the world'. The State, it was alleged, had 'assumed the character of a universal intervener'.[1] The interventions which *The Economist* viewed with so much distaste, however, were by modern standards extremely modest in their scope. In particular, they had not greatly affected the business world. In Victorian and Edwardian times politicians were under no obligation to produce, on demand, 'a policy for private industry'; it was generally taken for granted that the community's interests would be best served if industry were left to look after its own affairs without interference from the Government.

This attitude was not of course held without certain reservations. For example, Parliament had often intervened to restrict hours of work and to regulate conditions of employment. Again, where competition among individual firms could not always be expected, and was perhaps not even desirable—the railways were the outstanding case—the freedom of private interests was usually restricted by statute. But in general industry was allowed to go its own way. The notion that the Government might increase economic welfare, by affecting directly the prices and outputs of particular industries and their products, or by bringing about changes in the structure and organization of industry, had not yet been widely accepted.

After the First World War this attitude changed completely. The main reason for the change was the chronic depression which persisted, even in the 1920's, in several important industries. The fact that these industries stayed depressed, and were apparently unable, even after several years, to get rid of their excess capacity, weakened the old faith in the effectiveness of unregulated competition.[2] It became apparent that, in theory at least, the process of

[1] *The Economist*, 7 Apr. 1894. Quoted in J. H. Clapham, *An Economic History of Modern Britain*, iii. 397.

[2] In the case of public utilities, faith in competition had for obvious reasons

adapting the older industries to their new situation could be carried out more efficiently by deliberate planning. This view was expressed in the Final Report of the Balfour Committee which was published in 1929. The report stated that:

There can be no doubt that the operation of free competition is a very slow and costly method of securing such elimination [of inefficient plant]. The tenacity of life shown by businesses working at a loss is sometimes extraordinary. . . . But the results of the prolonged competition of inefficient undertakings react on the more efficient, and tend to depress the whole industry; and an operation of cutting out the dead wood may be essential for the speedy restoration of prosperity and the resumption of growth from the more vigorous branches. It seems unquestionable that this operation can often be performed more speedily and 'rationally' and with less suffering through the mechanism of consolidation or agreement than by the unaided play of competition.[1]

The committee also took the view that further consolidation and association within industry would be needed if the full economies of scale were to be attained. After 1929 these views won increasing support. The existence of excess capacity, and the relative decline in British competitive power, became far more conspicuous and urgent problems during the world depression, and it seemed obvious (except to a few intransigent economists) that competition could not bring about a satisfactory solution in the most acute cases. The need for greater centralization and control gradually became accepted.

It did not follow from this, however, that government intervention was needed. Provided that 'rationalization' could be carried by industry, without assistance, governments in this period did not feel themselves under any obligation to take action. But where the number of firms in an industry was large, the diversity of interests and conditions great, and individualist traditions still powerful, it became clear that effective central control could not be achieved without the help of the State. This was the case in coal, cotton, and agriculture, and for each of these special legislation was passed, the chief aim of which was to increase the profitability of the

never been very strong. The Railways Act of 1921, and the creation of the Central Electricity Board in 1926, were both important measures which aimed at establishing a far greater degree of central control over the services concerned; and neither required the stimulus of depression. But outside the field of public utilities, and especially in the older industries, the experience of hard times was the decisive factor in bringing about the change in public opinion.

[1] *Committee on Industry and Trade*, Final Report, p. 179.

industries concerned, by some form of price control, output control, or a combination of the two. In coal and cotton this was thought of as a necessary accompaniment to a policy for raising efficiency —in coal-mining by the amalgamation of pits, and in cotton-spinning by the planned elimination of excess capacity. In the iron and steel industry also—though this was in other respects a very different case—the Government made it a condition of assistance (which was given in the form of a protective tariff) that the industry should formulate and carry out a comprehensive scheme of reorganization. How far these measures, and other less ambitious forms of intervention, were well devised, and whether they achieved their aims, need not be discussed here. The important point is that by 1939 it was generally agreed that in some circumstances the State could and should interfere in the affairs of particular industries, and that by doing so it could help them to help themselves, and to become more prosperous and more efficient.

After the war the principle of central control in industry was considerably extended by the Labour Government in its measures of nationalization. In the iron and steel industry, which was not an immediate candidate for nationalization, an Iron and Steel Board was appointed in 1946[1] which was given general powers of control over the industry and charged with the duty of supervising its development programme. Towards the other manufacturing industries which were to be left in private ownership, the Government's policy was less clear-cut; it had no ready-made scheme for changing the existing forms of organization and control. The war had brought a complete change in the economic climate. The pre-war problems no longer existed, or had assumed a very different aspect. The protective legislation of the thirties, and many of the privately organized restrictive schemes which were then in operation, had lost much of their relevance in a post-war situation of full employment and strong inflationary pressure. New issues had come into prominence: the reconversion of industries which had been partly turned over to war production and where output had been concentrated in certain selected firms; the advisability of retaining controls, and the most effective and convenient ways of operating them; and above all, the need for raising productivity and increasing the volume of exports, at a time when the supply of both labour

[1] Comprising two employers' representatives, two trade union representatives, one consumer, one Treasury official, and an independent chairman.

and raw materials was often inadequate or uncertain. As the Government had no predetermined policy for dealing with private industry in this new situation, it decided to take advice before introducing any general legislation. In September 1945 Sir Stafford Cripps, who was then President of the Board of Trade, announced that Working Parties would be appointed to study the problems of particular industries.

Seventeen Working Parties were eventually appointed. The industries covered[1] were all (with the exceptions of jute and china clay) mainly concerned with the manufacture of consumers' goods, and were also alike in containing a large number of firms, in most cases of very varying size and character. All had suffered to some extent before the war from the effects of falling demand, and most of them came under the war-time 'concentration' scheme. Each Working Party consisted of representatives of the employers and the trade unions in the industry concerned, together with independent members; the most typical arrangement was four employers, four trade union officials, and four 'independents', with an independent chairman. The terms of reference were in each case

> To examine and inquire into the various schemes and suggestions put forward for improvements of organization, production and distribution methods and processes in the industry, and report as to the steps which should be taken in the national interest to strengthen the industry and render it more capable of meeting competition in the home and foreign markets.

The last of the Working Party Reports was published in 1948.[2] Long before this the Government had already taken action on the basis of earlier reports. Cotton-spinning was dealt with separately as a special case. In December 1946 Sir Stafford Cripps announced that a re-equipment subsidy, to cover one-quarter of the initial cost of new equipment installed, would be given on certain conditions. Orders were to be placed and fulfilled within a specified period (which was later extended); only groups of mills containing a certain

[1] These were: Cotton; Wool; Hosiery; Lace; Jute; Carpets; Heavy Clothing; Light Clothing; Boots and Shoes; Rubber-Proofed Clothing; Pottery; Hand-Blown Domestic Glassware; Furniture; Jewellery and Silverware; Linoleum; Cutlery; and China Clay.

[2] This statement refers to the original Working Parties. Since they were set up the term has become popular with Ministers and has been applied to several other committees which had no connexion with the seventeen referred to above.

number of spindles[1] could qualify for assistance; and two-shift working was to be introduced 'as and when the mills are progressively modernised'.[2] Altogether twenty-nine groups were registered with the Board of Trade, covering well over half the spindles in the industry, and it has been estimated[3] that the total expenditure incurred under the scheme will eventually come to £15–16 million. The scheme has not, however, been extended to other sections of the cotton industry, and no similar action has been taken in relation to any industry other than cotton.

The most important result of the Working Party Reports was the Industrial Organization and Development Act, which came into force in the summer of 1947.[4] This was an enabling Act which empowered any one of eight Ministers to establish by an Order, subject to approval by a resolution in each of the Houses of Parliament, a Development Council in a particular industry, or for a group of related industries. Orders could also be made authorizing levies on industries for such purposes as research or the promotion of the export trade. The members of a development council were to be appointed by the Minister and to include representatives of employers and workers (who together had to form a majority of the council) and independent members. The Act required that the Minister concerned, before making an Order, should consult any organization of employers which appeared to represent 'substantial numbers of persons carrying on business in the industry',[5] and also any organizations representing employees which it seemed to him appropriate to consult. It was also laid down that 'a development council order shall not be made unless the Board or Minister concerned is satisfied that the establishment of a development council for the industry is desired by a substantial number of persons in the industry'.[6]

In the first Schedule to the Act a list was given of twenty functions which the Minister might assign to a development council. These covered scientific and technical research; design; the certification of products; promoting a greater degree of standardization

[1] No definite limit was fixed. In Sir Stafford Cripps's original statement, a figure of 'about 500,000' was mentioned, but groups containing much smaller numbers later became eligible.

[2] Quoted from the speech in which Sir Stafford Cripps first announced the scheme.

[3] *The Economist*, 15 Apr. 1950.

[4] 10 & 11 Geo. VI, c. 40.

[5] Quoted from the Act, Section 1 (3).

[6] Ibid., Section 1 (4).

of products; the promotion of the home and export trades; improvements in marketing and distribution arrangements; recruitment and training; the improvement of working conditions; the collection of statistics; better and more uniform methods of cost accounting; and advising the Minister concerned on matters relating to the industry. The Act stipulated that questions of remuneration and terms of employment were to be excluded. The only compulsory powers which could be given to a council under the Act related to the registration of firms, the collection of statistics, and the imposition of a levy on the industry concerned in order to cover expenses. It was made clear, therefore, that the councils would be concerned only with providing common services and facilities for industry and giving advice when it was asked for; they would not be able to impose any radical changes in the organization of a firm or an industry. Sir Stafford Cripps, when introducing the Bill in the House of Commons, implied that the Government had taken the already existing Cotton Board[1] as a model.

Between the advent of the Industrial Organization and Development Act and the defeat of the Labour Government in the autumn of 1951, only four development councils were established. Three further Orders were made under the Act, two for compulsory levies to finance research in the wool and lace industries, and the third for a similar levy in wool for the purpose of promoting exports. Under the terms of the Act an Order could be made for any industry or group of related industries; in practice, all these Orders were made by the President of the Board of Trade, and the only industries affected were drawn from those in which working parties had been appointed. In the spring of 1948 the Cotton Board was reconstituted as a development council, while the other three councils appointed were in furniture,[2] jewellery and silverware,[2] and clothing.[3] The last Order to be made under the Act, which authorized the levy for research in the wool industry, appeared in November 1950.

The appointment of development councils was in some cases delayed, and in others prevented altogether, by opposition from employers in the industries concerned; and the strength of this opposition largely accounts for the fact that only four councils have come into existence. The Cotton Board had already established

[1] See below. [2] At the beginning of 1949.
[3] At the beginning of 1950.

its position in the industry, long before the appearance of the Industrial Organization and Development Bill, and there was apparently little opposition to the appointment of the councils for furniture and jewellery and silverware. In clothing, however, there was a good deal of resentment in certain sections of the industry, and some of the employers contested in the courts (without success) the legality of the Order establishing the council. In hosiery also there was opposition, and although a draft Order for a council was made as early as June 1948,[1] the final Order was never made. In the case of wool a draft Order was published in June 1949, but the feeling among the employers in the industry was so strong that the President of the Board of Trade finally decided to withdraw the Order (in November 1950), and agreed to the establishment of a non-statutory advisory committee, of which he was to appoint only the independent members. Negotiations were opened by the Board of Trade with other industries, but it appears that in most cases little progress was made in the face of hostility among employers. Moreover, in two cases at least—wool and boots and shoes—the trade unions concerned were prepared to accept a non-statutory body in the place of a development council.

The attitude of the employers was at first sight rather surprising, in view of the fact that so many of the working parties[2] had recommended the creation of a new central organization for their industry. Part of the explanation is that in some cases the working parties had recommended non-statutory bodies, of which only the independent members would be appointed by the President of the Board of Trade; this was true of wool, hosiery, heavy clothing, and boots and shoes. It was felt by many business men that such a body would be able to perform all the functions which might be entrusted to a development council, and that as a matter of principle it was better to have as little interference as possible by the Government in the ordinary affairs of industry. But this objection to statutory bodies is certainly not the whole of the explanation. Several working parties specifically recommended that all the members of the proposed central body should be appointed by the President. Of these, the jute and light clothing working parties, which published their reports after the appearance of the Industrial

[1] Cf. *The Economist*, 17 July 1948.

[2] Thirteen out of the seventeen. The exceptions were lace, linoleum, carpets, and hand-blown domestic glassware.

Organization Bill, recommended the establishment of development councils, while the report on rubber-proofed clothing wanted a council for the whole clothing industry. Of the other reports, cotton, furniture, cutlery, pottery, and china clay all recommended a government-appointed board. When one compares this list with the number of councils which have actually been set up without serious opposition, it seems clear that after the publication of the Working Party Reports a change of attitude occurred.[1]

It is difficult to account for this change, but two factors probably contributed to it. The first was an increasing distrust of the intentions of the Labour Government, and a feeling that although development councils might appear harmless enough, they could eventually become the instruments, if not actually of a policy of nationalization, at least of more far-reaching government intervention and control. There is little evidence to support such a view, but it seems nevertheless to have been quite widely held. The second factor is that when the Working Party Reports were written there was a widespread fear that the high level of demand in the earliest post-war years would probably not last for long. It has been suggested that the fear of a return to the depressed conditions of the thirties made many employers willing to accept reforms in the organization of their industries, and that the continuation of a sellers' market has made them more satisfied with existing arrangements, and less willing to accept any form of government intervention.

The fact that in the cotton industry the establishment of a development council met with no opposition lends some support to this view. In the first place, the Cotton Board had already existed for eight years and had been the creation, not of the Government, but of the industry itself. The only results of the Order which made it into a development council were its rechristening as the Cotton Board 1948 and a number of minor constitutional changes;[2] it continued to perform precisely the same functions as before. In these circumstances there were no grounds for regarding it as a

[1] It is possible, however, that the views of the employers who were members of the Working Party Reports did not fully reflect those of many other employers in the industries concerned.

[2] The Cotton Board 1948 differs from its predecessor in having equal representation of employers and trade unions, and two independent members in addition to an independent chairman, and also because it has no representatives of raw cotton merchanting or of rayon.

new and sinister way of extending the powers of a Socialist Government. Secondly, the Board had come into existence because of the industry's disastrous experiences in the inter-war period; the need for it was felt largely because the industry had endured a long phase of acute depression and falling demand.

Whatever the reasons for opposition to development councils, the practical results of the Industrial Organization and Development Act have been small. Not only were very few councils set up but there seemed also little prospect, even while the Labour Government was still in office, that any more would come into existence. It is too early to pass judgement on the work of the existing councils, except perhaps in the case of cotton. The Cotton Board had already undertaken a wide range of activities before its reconstitution as a development council. It has a statistical department which is concerned with the collection and formulation of statistics relating to the industry and to the world textile trade; a labour department, which deals with training, recruitment, working conditions, and research into methods of labour utilization and matters relating to industrial psychology; an export department; and a market research department. In addition it makes grants to research organizations and maintains an admirable colour, design, and style centre in Manchester. It also acts as a channel of communication between the industry and the Government. These functions were built up gradually, with the consent and support of the industry, and there seems no doubt that the board has fully established itself. The three councils which were genuinely new creations have scarcely had time to achieve this. The Furniture Development Council has mainly concerned itself with problems of raising standards of quality and the certification of products and also with improvements in working conditions. None of the three appears so far to have had any marked affect on the general standard of efficiency in the industries concerned, though it would perhaps be unfair to expect this.

On the whole this part of the Labour Government's economic policy can hardly be said to have achieved any notable success. When introducing the Industrial Organization and Development Bill in the House of Commons, Sir Stafford Cripps described it as 'designed to provide methods for enabling private industries to bring themselves up to date, and to make themselves as highly efficient in the production and distribution of their products as

possible'; but it seems unlikely that the Act will do much towards raising productivity in British industry. This is not only because so few Orders have actually been made under the Act; a more fundamental reason is that even under favourable conditions development councils can only be expected to achieve very limited results. Given their present constitution and powers, they cannot impose on an industry any far-reaching changes. Such problems as excess capacity and under-utilization of plant and equipment, or excessive variety of product, which were discussed in some of the Working Party Reports, cannot be dealt with effectively by development councils. This does not mean that the councils should have been given far more extensive powers; if this had been done opposition to them would have been—understandably—far more widespread and determined. In so far as action is required in some industries to produce further concentration of production or standardization of products—which is of course a highly debatable question—it must be taken directly by the Government, as in the case of the re-equipment scheme in cotton-spinning. Where concentration was thought to be needed, it could be encouraged by giving financial help to groups of firms on condition that the less efficient firms were closed down and their output transferred to the other members of the group, Again, standardization could be furthered, either by fiscal measures, through giving subsidies or tax exemptions to products conforming to certain specifications, or else by a system of bulk ordering by the Government. It would be quite inappropriate to expect a body such as a development council to carry out such drastic measures of reorganization. Their powers must necessarily be far more restricted, and in this respect the terms of the Industrial Organization and Development Act would seem to be realistic and sensible. Given this, however, it would obviously be unfair and unrealistic to expect spectacular results to follow from the appointment of development councils. Although the policy of establishing them was resented as an unnecessarily drastic interference in the affairs of industry, the 1947 Act, considered in the light of the analysis and recommendations of the Working Party Reports, was in no way a revolutionary measure.

For this reason the comparative failure of the Act, in the face of the difficulties which were encountered in trying to apply it, is not in itself a very serious matter. A statutory development council, if it meets with acceptance and support, may perhaps have advan-

tages over a non-statutory representative body; but if it meets with the suspicion and hostility of a large number of employers in an industry, it obviously has less chance of doing useful work than a voluntary organization of the same kind which can secure whole-hearted co-operation. It would be regrettable, however, if the controversies which have arisen over development councils have the effect of retarding or preventing the growth of this type of organization. The evidence of the Working Party Reports and the experience of the Cotton Board suggest they can play a useful part in raising standards of efficiency. As it is, for better or for worse, the Industrial Organization and Development Act has so far had virtually no effect on the structure and methods of British industry.

CHAPTER XXI

AGRICULTURE

By D. K. BRITTON

THE termination of hostilities in 1945 made little difference to the immediate prospects for British agriculture. It was evident that at least for a year or two the need would continue both for all-out effort in production and for the central direction of that effort towards the end-products which the national and international food situation most demanded. For agriculture more than for most other industries, the period of emergency outlasted the period of the active state of war. In 1945 the battle against hunger had still to be won. Even five years later the British people had not regained that sense of security in regard to food supplies which had prevailed before the war.

Certain features of the war-time pattern of farming persisted throughout the post-war period which is now under review. The chief tasks of farmers during the war had been to maintain and if possible increase the supply of milk, despite drastic cuts in the imports of feeding stuffs, and at the same time to devote more land to the production of crops for direct human consumption (principally wheat, potatoes, sugar beet, and vegetables), and less to permanent pasture, so as to ensure the provision of an adequate diet to the population in the face of diminished food imports. Both of these obligations remained long after 1945.

Of all the belligerent countries in Europe, only the United Kingdom could show a higher level of agricultural production in the immediate post-war years than had been achieved before the war.[1] This was no doubt largely due to the fact that the land of Britain had not suffered the devastation and plunder which had ruined many European farmers. Even so, British agriculture had not reached this unique position without passing through a time of drastic upheaval, different in kind from that experienced in the battle zones but not less remarkable in its results. Some of the revolutionary changes, such as those which resulted from the greatly extended use of mechanical power, had clearly come to stay

[1] F.A.O. *Yearbook of Food and Agricultural Statistics*, 1949, Part I, p. 217.

and constituted welcome and much-needed improvements. But there were many farmers who did not find it easy to conform to the new patterns which necessity had imposed, and who were looking forward to being able to re-establish their former systems (grazing of prime beef cattle, specialist pig or poultry keeping, &c.), as soon as the war was over.

For such farmers many disappointments were in store. These may be traced to two chief causes, each of which in turn reflected the nation's general financial predicament in the world market. First, the ploughing-up campaign, which had been looked upon as a temporary measure, was renewed for a further period of years. Secondly, the long-awaited increase in supplies of imported feeding stuffs was slow in coming owing to world shortages and currency difficulties.

In 1939 there were in the United Kingdom roughly 13 million acres of arable land and 19 million acres of permanent grassland (excluding rough grazings). By 1945 these proportions were just about reversed in a somewhat reduced total—19 million acres of arable and 12 million acres of permanent grassland. Thereafter, as a direct result of government policy operating through subsidies, price incentives, and the power of persuasion, this high arable/grassland ratio was well maintained. The arable acreage did not fall below 18·3 million acres in any of the five years 1946–50. Small increases in the area of permanent grass were recorded year by year during this period, but nothing in the nature of a reversion to the traditional pattern took place. In 1950 there were only two acres of permanent grass for every three in 1939. That is one summary indication of the difference between pre-war and post-war agriculture in Britain.

Another is provided by the statistics of net imports of certain feeding stuffs. Before the war the United Kingdom imported annually about 4½ million tons of maize, barley, oats, and their products (as well as large quantities of oilcakes and other concentrates). During the war the supply of these imported cereals to farmers fell to almost negligible proportions, and it remained at less than 1 million tons until 1948. In that year imports reached 2·4 million tons, but they fell again in the two following years to less than 2 million tons. This prevented the restoration of the pig population to the pre-war level, and although poultry keepers fared a little better it was not until the acute grain shortages of

1947 were past that poultry numbers greater than those for pre-war years were recorded. This tardy recovery was assisted by the relaxation in 1948 of restrictions on the feeding to livestock of farmers' home-grown wheat and barley, but the rationing of purchased feed continued.

Throughout the post-war period the call was for maximum expansion, within the limits set by the cereals position. It was realized, however, that the nature of the expansion ought to be consistent with the fundamental necessity of conserving the fertility of the soil, and it was with this consideration in mind that, after six years of unusually intensive cropping, expansion was thought of primarily in terms of livestock. It was the Government's declared policy to switch from crops for direct human consumption to livestock and livestock products as soon as possible. The Minister of Agriculture also made it clear that the policy was based on the belief that the soil and climate of Britain are, for the most part, best suited to a mixed farming system, with grass playing an important part in the cropping rotation.[1]

At first it was generally assumed that the expansion of production of meat (especially pigmeat) would necessarily proceed in step with the resumption of feeding stuffs imports on something like the pre-war scale. By the middle of 1947, however, it was becoming more and more apparent that if the needed expansion was to be achieved it would have to rely on home-grown feed supplies to a much greater extent than had been anticipated. It was going to be increasingly difficult for Britain to procure and pay for supplies from overseas in sufficient quantities to permit any appreciable reduction in its efforts to feed more stock from its own resources. This, together with the relative scarcity of wheat compared with pre-war days, explains the continuance of the high tillage acreage. It would have been imprudent to have counted on an early movement of the terms of trade or of the world prices of cereals to save the situation.

Accordingly, when the Prime Minister announced on 6 August 1947 the launching of a new four-year expansion programme which was designed to raise the net output of agriculture by 1951–2 to a level about 50 per cent. above pre-war and 20 per cent. above

[1] See *Economic Survey for 1947*, para. 107, and the speech by Mr. Tom Williams, Minister of Agriculture, in moving the second reading of the Agriculture Act, 1947, on 27 Jan. 1947.

1946–7, he emphasized that the plan implied a higher standard of self-sufficiency in livestock production than had been customary before the war. Every encouragement would be given to the growing of fodder crops with a high protein content, as well as to measures for improving the use and conservation of grass. In 1946–7 the production of coarse grains (barley, oats, and mixed corn) had been almost double the pre-war average. It fell away in 1947–8 mainly owing to difficult conditions at seed-time and harvest, but the new programme provided for the 1946–7 level to be regained and even, by 1951–2, somewhat exceeded.

It is interesting now to recall that the plan made special mention of linseed as a dollar-saving feed crop. The Government boldly called for an increase in the area under this crop from 38,000 acres in 1947 to 400,000 acres in 1951. For a year or two there was some response to this appeal, but by 1950 the acreage was back to the 1947 level. The crop was unfamiliar and despite the high price which had been fixed, most farmers did not consider it worth while to master the technique of its cultivation and harvesting.

With this exception, however, farmers responded well to the four-year plan. The targets had been set in anticipation of some increase in efficiency in the use of resources, and indeed this was expected to contribute as much to the increase in output as the additional feeding stuffs, machinery, farm buildings, and other 'tools for the job' which the Government undertook to make available. Just what increase in efficiency took place is largely a matter of conjecture, for no entirely satisfactory measure has been found; but by the end of 1950 it could be claimed with some statistical justification that the four-year output programme was well on the way to being realized, in broad outline if not in full detail. The value of net output, calculated on the basis of constant prices per unit of product, was officially estimated to have reached 39 per cent. above pre-war in 1949–50 and (provisionally) 46 per cent. above pre-war in 1950–1,[1] leaving one more year in which to reach the objective of a 50 per cent. increase.

It should be noted that this particular yardstick, the quantum of net output, has had a special interpretation attached to it by the agricultural departments which appreciably affects the movement of the index in recent years. Although a careful distinction is made between gross output (i.e. the total amount of produce sold

[1] Mr. T. Williams, House of Commons, 1 Mar. 1951 and 8 Aug. 1951.

off farms in the United Kingdom or consumed in farm households) and net output (i.e. gross output reduced by the amount of purchased materials used in production), the only items which the departments deduct in arriving at net output are those which represent 'British indebtedness to foreign *agriculture*'.[1] While these items include some of the most important purchases made by British farmers—imported feeding stuffs, live animals, and seeds—they do not include others which have played a vital part in the recent increase in production, such as fertilizers, tractor fuel, and the services of public and private agricultural machinery contractors. For this reason it is probable that the official net output index somewhat exaggerates the magnitude of the increase which is fairly attributable to the efforts of those engaged in the agricultural industry.

On the other hand, to concentrate attention too much on changes in *gross* output, even if this is what may be of most interest to the consumer, would tend to convey too modest an impression of the progress made by farmers since 1939 in intensifying crop production, improving the stock-carrying capacity of grassland, and economizing in the conversion of feed of all kinds into food products. According to the index number of agricultural production calculated by the Food and Agriculture Organization by reference to figures of gross output,[2] farmers in the United Kingdom produced 21 per cent. more in 1949–50 than in the average pre-war year—a very different picture from that given by the figure of 39 per cent. on the basis of net output.

These are important points for the user of statistics to bear in mind, but transcending them all is the simple and unassailable fact that in the post-war period farmers supplied an increasing amount of food to the nation while still relying less than they did before the war on overseas farmers for the requisites of production. In 1949–50, home-produced food was contributing 39 per cent. of the calories, 53 per cent. of the protein, and 34 per cent. of the fats consumed by the population. Before the war, when there were nearly 3 million fewer people to be fed, the corresponding

[1] *Agricultural Statistics, United Kingdom, Part II, 1939–40 to 1945–6*, p. 26. (My italics.) For a fuller discussion see J. H. Kirk, 'The Output of British Agriculture during the War', *Journal of Proceedings of Agricultural Economics Society*, vol. vii, No. 1 (June 1946). See also K. E. Hunt, 'Supplies and Prices: Notes and Statistics', *Farm Economist*, vol. vi, No. 10, pp. 328–30.

[2] F.A.O. *Yearbook*, 1950, vol. iv, Part I.

figures were only 30 per cent., 44 per cent., and 31 per cent. respectively.[1]

How was this achieved? Not by increasing the total area under cultivation (crops and grass). The land lost to agriculture through urban development, opencast mining, road making, forestry, and other miscellaneous uses exceeded the area reclaimed from marsh and moorland. There was a continual clash of interests over questions of land use, and many agriculturists felt that they were fighting a losing battle as they saw first-class farm land being compulsorily taken over for permanent development. Renewed concern was expressed about the extensive stretches of 'marginal' land, much of which lay in hill and upland country, on the lower slopes of the hills between the true hill-farming land and the lowland farms producing fatstock, milk, and crops. Experiments had shown that such land could often be lifted onto a higher level of productivity, but the initial expenditure required to improve the land and erect or renovate the buildings was usually heavy. Progress in this direction was slow, but the need to put this land to more effective use was regarded by the Government as a matter of national urgency, and in March 1951 the Livestock Rearing Act was passed, extending to some 3½–4 million acres of stock-rearing land in upland areas the same kind of assistance as had already been offered to hill farmers under the Hill Farming Act of 1946, viz., grants to cover half the cost of work done on approved schemes of comprehensive improvement.

This was the long-term approach; within the period 1945–50 the increase in total production was attained mainly through heavier cropping and higher milk yields per cow. Although much land of inferior quality had been brought under the plough in order to produce grain and potatoes, and in spite of the appearance of these crops at more frequent intervals in the rotation than would formerly have been thought prudent in many areas, there was in general no decline in yields per acre, but rather some increase, as is shown by the averages derived from the official annual estimates. Factors contributing to the maintenance of yields were the more liberal and more effective use of fertilizers, improved varieties of seed, and, in some cases, more opportune harvesting made possible by the use of combine harvesters. Mechanization, which had spread

[1] Mr. T. Williams, House of Commons, 25 Jan. 1951; and *How Britain was Fed in War Time*, Ministry of Food, H.M.S.O., 1946, p. 10.

very rapidly during the war, proceeded apace in the post-war years. In April 1944 there were 173,000 tractors on agricultural holdings in Great Britain; by January 1950 the number was 332,000. This meant not only that a great deal more power was available so that the increased amount of field work could be carried out in a shorter time, but also that, by the substitution of tractors for horses, land which had previously been devoted to pasture and feed crops for horses could be released for food production. The number of combines increased in the same period

Yields per acre, United Kingdom

	1939–44	*1945–50*
Wheat (cwt.)	19·0	19·6
Barley (cwt.)	17·4	18·6
Oats (cwt.)	16·7	17·0
Potatoes (tons)	7·2	7·0
Sugar beet (tons)	9·2	10·0
Turnips and swedes (tons)	14·6	14·5
Mangolds (tons)	19·2	20·4
Hay from temporary grass (cwt.)	28·0	29·0

from about 2,500 to 10,500. The use of machinery in and around farm buildings was also greatly extended. Milking machines numbered 38,000 in April 1944 and had increased to 79,000 in January 1950.

The increase in milk production was one of the most striking features of farming in this period. The pride of place given to milk in food-supply planning and in the policy of subsidies had its counterpart in the fixing of prices paid to the farmer at levels which strongly encouraged milk production in all but the most unfavourable conditions. In addition, the regular income which this product could be relied upon to yield was a powerful incentive to many farmers. The consequence was that the Government's original target for 1951–2 of a 23 per cent. increase in output over pre-war years had already been reached by the middle of 1950[1] and in that year it was possible to meet the demand for fresh milk without having to impose rationing at any time. Although the number of cows increased by over 6 per cent. between 1945 and 1950, the rise in the quantity of milk produced was mainly due

[1] This had a significant influence on the prices fixed in the following year. See Cmd. 8239, *Annual Review and Fixing of Farm Prices*, 1951.

to higher yields, 'reflecting better management, improved breeding, increased control of cattle disease and more adequate nutrition'.[1] Much had been achieved in the improvement of pastures and in the handling and conservation of grass, especially in the form of silage.

There was some increase in the agricultural labour force during 1945–50, but not as much as had at first been deemed necessary when the expansion programme was drawn up. The number of regular male workers rose from 572,000 in June 1945 to a peak of 645,000 in June 1949, falling slightly thereafter. The Women's Land Army, which had reached a strength of 80,000 in 1944, continued throughout the period to provide valuable help. Some 15,000 prisoners of war elected to stay in this country as civilian farm workers, the rest being repatriated by the end of 1948. Mechanization undoubtedly helped to keep down labour requirements to an amount which was forthcoming without any drastic steps being necessary. From time to time there were complaints of local or seasonal shortages, but on the whole the work was carried out without undue strain or dislocation. The improved wage position of the farm worker tended to reduce the flow to other industries, and suspension of call-up also helped to maintain the labour force intact.

If, as figures from the 1950 and 1951 agricultural returns suggest, the familiar condition of a steady drift of workers from the land is to be part of the rural scene in the coming years, the reason is likely to be found in farmers' management decisions at least as much as in workers' preferences. Farmers who are faced with higher wage bills, and who at the same time can see opportunities for the extension of labour-saving systems of equipment and management which will enable them to use more fully the mechanical power which is now at their disposal, will feel a strong inducement to cut down their staffs. The tremendous scope for labour economy is emphasized in the report of the Productivity Team on Farming which visited the U.S.A. in 1950.[2] If farmers can rapidly alter the ratio of men to machines there is no reason why output should not expand and the labour force decline.

The most important single event affecting farmers, farm workers,

[1] *Economic Survey for 1951*, para. 85.

[2] *Productivity in Farming*, Anglo-American Council on Productivity, Sept. 1951.

and landowners during this period was the passing of the Agriculture Act, 1947 (10 & 11 Geo. VI, c. 48). This Act is likely to prove to be one of the landmarks in the history of British agriculture. Its main provisions were fashioned out of the experience of war-time conditions. Many of the principles and procedures to which it gave the weight of statutory authority were not novel and untried, for they had been worked out some years before under the stress of emergency and had been embodied in war-time regulations or negotiated agreements. But the Act re-affirmed the principles, regularized the procedures and consolidated much piecemeal legislation.

Many of the clauses of the Act are worded in a way which was calculated to permit the maximum degree of flexibility in their application to changing conditions. This does not make for easy reading, but fortunately an *Explanatory Memorandum* (Cmd. 6996) was presented to Parliament with the Bill, and here the main provisions are clearly set out. For closer study of all the implications, reference should be made to clause-by-clause commentaries, of which the best are by J. F. Phillips (Spon and Eyre & Spottiswoode, 1948) and A. Cripps (Butterworth, 1948; with Supplement, 1948).

Of greatest significance for the general economic condition of the industry are Part I (Guaranteed Prices and Assured Markets) and Part II (Good Estate Management and Good Husbandry), since they are concerned with the 'twin pillars upon which the Government's agricultural policy rests', stability and efficiency. Clause 1 indicates that the Act was designed

> for the purpose of promoting and maintaining, by the provision of guaranteed prices and assured markets for the produce mentioned in the First Schedule to this Act,[1] a stable and efficient agricultural industry capable of producing such part of the nation's food and other agricultural produce as in the national interest it is desirable to produce in the United Kingdom, and of producing it at minimum prices consistently with proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested in the industry.

Such is the general statement of objectives. Later clauses deal

[1] The Schedule names eleven major agricultural products which in 1947 together accounted for over 70 per cent. by value of the produce sold off farms in the United Kingdom. Wool has since been added to the list. Horticultural produce is not included.

with the powers and machinery for giving effect to the policy. The important steps are (i) the permanent establishment of the 'price review' system which had taken shape during the war, and (ii) the prescription of general standards of good estate management and good husbandry and the provision of powers enabling the Minister to place under supervision, to direct, and, if necessary, to dispossess landowners and farmers not complying with those standards. Part V provides for the setting up on a permanent basis of County Agricultural Executive Committees appointed by the Minister but including a number of members drawn from panels nominated by the farmers, agricultural workers, and landowners.[1]

Broadly, the price review system—which has been fully described and discussed elsewhere (see Bibliography)—has been used to ensure that, given normal weather conditions, farmers' net receipts in the aggregate will approximate to a figure already determined; and at the same time, by means of differential price incentives, to bring the pattern of production into conformity with the Government's plans for total food supplies. There is provision for special reviews (as well as annual reviews) in the event of sudden and substantial changes in costs of production. It is not a 'cost-plus' system, since the principle of recoupment for ascertained and specific cost changes operates only in helping to arrive at a 'global' award which then finds its way back to individual farmers in proportion to the quantities of the various scheduled commodities which they sell. There is no guarantee against loss on individual farms, even if all the rules of good husbandry have been observed, and samples of farm accounts furnished voluntarily to agricultural economists have always shown a proportion of farms which, in the year in question, yielded no income to the operator as a reward for the managerial and manual work of himself and his wife and as repayment on his own invested capital.

In general, however, it is agreed that prices were more than adequate to cover the working expenses of the reasonably efficient producer during these post-war years. It was recognized that for the fulfilment of the expansion programme it would be necessary for farmers to earn enough not only to cover running expenses but

[1] A National Agricultural Advisory Service had already been set up on 1 Oct. 1946. It provides technical advice and instruction free of charge to those engaged in agriculture and horticulture in England and Wales. For a description of the evolution and functions of the C.A.E.C.s and the N.A.A.S. see a report on the *Organisation of the Ministry of Agriculture and Fisheries*, H.M.S.O., 1951.

also to finance new investment on the scale which the programme implied. Prices were therefore fixed at levels which were calculated to 'inject' into the industry the sum of £40 million a year for this purpose.

This method of financing the industry was strongly criticized, notably in the columns of *The Economist*. The phrase 'featherbed farming' had a lively circulation after its use by Mr. Stanley Evans, who, in April 1950, resigned from the post of Parliamentary Secretary of the Ministry of Food after publicly attacking farmers for inertia and inefficiency and protesting against the waste of taxpayers' money. Certainly there was no obligation on farmers to spend the £40 million a year for the purposes intended, and it was not difficult to find evidence of substantial improvements in the standard of living of farm households. After the new fillip was given to prices in 1947 there was unquestionably much new investment in machinery and equipment, but the critics felt that distribution on the basis of inflated demand was 'the least selective and the most costly way possible'. The Government was urged instead to make the extra money available in the form of grants for specific farming operations and to attempt to direct the assistance to those farms where there were genuine financial handicaps to higher productivity.

There was, however, no change of policy in response to these criticisms, and the Government was satisfied to let the higher net output figures speak for themselves. The Lords Commissioners of H.M. Treasury expressed the view that the system of capital injection through prices, 'which was intended to be only a temporary expedient, was the most effective way of securing the rapid general expansion in production which was then considered desirable. Any other system . . . would have taken considerably longer to introduce'.[1]

Even if it did not positively 'make bad farming pay', the system of guaranteed prices and assured markets, it must be agreed, did not in itself encourage the efficient use of resources during this period. Nor, in practice, did the operation of other parts of the 1947 Act effectively substitute the threat of dispossession for the threat of bankruptcy. Tenants had never felt more secure and eviction under the Act took place only after the most flagrant and

[1] Appendix 2 to *First, Third and Fourth Reports, Committee of Public Accounts, Session 1950*, pp. 361–2.

shocking neglect. Progress in the art of farm management came about chiefly through precept and example.

Between 1945 and 1950 the prices of agricultural products increased by nearly 40 per cent. The wages of agricultural workers also increased substantially, the minimum weekly rate for an adult male worker in England and Wales being raised by stages from 70*s*. in March 1945 to 100*s*. in November 1950. In general other costs had not risen so sharply, partly owing to subsidies, and the combined effect of higher average net profit per unit of product and higher volume of output was to raise farmers' net income (from farming only) from £190 million in 1946 (about £510 per full-time farmer) to £302 million in 1950 (about £810 per full-time farmer).[1]

Owners of farm land enjoyed no increase in net income comparable to the increase in profits and earnings of farmers and farm workers. Rents, although not strictly tied to 1939 levels after the manner of house rents, increased very little compared with prices generally, and very much less than landlords' expenses of maintenance and management. Nevertheless, many landlords reaped substantial benefits in the form of capital appreciation, particularly as they were entitled to grants of up to 50 per cent. of the cost of a wide range of improvements to buildings, water supplies, drainage, and so on. Owners of agricultural property were also favoured in comparison to other property owners in that they could claim a large reduction in estate duty at death.

There was keen competition for farm land put up for sale. The prices of farms with vacant possession reached very high levels, and it became quite common for farms to change hands at four or five times their 1939 value. The continued buoyancy of the market for land seemed to indicate confidence among the farming community that the prosperity which they had enjoyed throughout the 1940's would continue for some time.

The 1947 Act did not profess to tackle the many and complex problems of agricultural marketing, but these were being actively discussed in farming circles. The Ministry of Food was responsible for marketing arrangements, which were an integral part of the system of price control. Many farmers were anxious to see some transfer of power to producers' organizations, set up on the lines

[1] See White Papers on *National Income and Expenditure of U.K.* No figure for 1945 is available.

of the pre-war marketing boards. They had, it is true, their 'assured market' under the Act, but only for 'such part of the nation's food . . . as in the national interest it is desirable to produce in the United Kingdom', and, said the more sceptical, only for so long as the Act remained in force. Always there was the possibility of a sudden fall in the prices of foodstuffs available to the United Kingdom from overseas. What would the assured market amount to then?

Apart from this fear, there was uneasiness about the high cost of processing and distribution between farm gate and consumer. Greater efficiency in handling home-produced food could greatly improve the prospects of maintaining a high level of home production. Under Ministry of Food control the main objectives were to curb inflation and to secure 'fair shares'; efficiency in marketing was a secondary consideration. Licensed middlemen and processors had in most cases to be allowed 'margins' wide enough to enable the least efficient to carry on. Somehow economies would have to be effected.

The situation was felt to be especially unsatisfactory in the case of horticultural produce, which was not covered by the 1947 Act and which was highly susceptible to changes in the prices and quantities of competitive imports.

The Lucas Committee, which reported in 1947 on the working of the Agricultural Marketing Acts, suggested the formation of independent 'Commodity Commissions' to control the marketing of each 'review' commodity from the point at which the guaranteed price applies. On the whole the report had a poor reception, farmers being anxious to obtain a greater degree of control after the point of first sale. At the close of 1950 all the major marketing questions had still to be tackled.

PART VI

BRITAIN AND OVERSEAS

CHAPTER XXII

THE INTERNATIONAL ASPECT

By T. BALOGH

THE relative deterioration of the British international position dates back to the Great Depression of the 1880's. The agitation for tariff reform pointed to the tremendous technical progress achieved in other countries, especially Germany and America, and the handicaps suffered by British traders as a result of the protective measures employed by these states. These doubts were stilled for the time being by the revival of the 1890's which produced a rapid expansion in Britain's foreign trade despite the loss of her industrial supremacy.

Immediately after the First World War Lord Keynes, in an exchange with Lord Beveridge, predicted the coming of a new hungry era. In the short run his fears seemed baseless. The pre-1914 and war-time flush of investment in primary production resulted in an increase of supplies amply sufficient to cover the demand of the increased populations. Demand, moreover, did not expand quickly. This was in part due to the slowing down of the growth of population. A large part of the world remained disturbed or depressed after the post-war boom. These two facts explain the almost continuous agricultural crisis of the inter-war period. The discovery and opening of sources of raw materials kept their prices also relatively low. In consequence, even in the 1920's, Britain's terms of trade remained relatively favourable; they improved rapidly under the impact of the depression which bankrupted primary producing areas.

The losses which Britain had suffered as a creditor after 1929, in consequence of the bankruptcy of her debtors in Europe and overseas, were thus offset, or even more than offset, by the improvement in her terms of trade. Yet despite rising real national income the lack of confidence and the sense of unease grew. In the 1920's the British balance of payments had still shown a considerable surplus; on the average, perhaps, not less than £100 million per annum.

After 1930, however, the British balance only once showed a surplus on current account; cumulative external disinvestment over the decade was of the order of £250 million. What is perhaps even more significant is that the deficit was growing. The 1935 export surplus of £32 million had been converted into an import surplus of £18 million in 1936, and one of £52 million in 1937; the last pre-war year, 1938, saw this increasing further to £70 million as a result of the American relapse, which depressed British exports while imports remained relatively high owing to rearmament.

Changes due to the war

The tale of losses suffered during the war has been well told in the White Paper published after the Washington negotiations for the original American loan.[1]

(*a*) *Loss of markets*. The total deficit in the British balance of payments during the war amounted to over £4,000 million.[2] It was covered by the sale of external capital assets, the increase in foreign liabilities, and the diminution of gold reserves. The regrettable feature of the situation was that the losses occurred mainly in assets held in countries whose financial status was good and which had not defaulted even in the great depression. In addition, a large amount of foreign assets became worthless partly through default, partly through confiscation, and partly through physical deterioration.[3]

This deficit and the consequent loss of wealth was the consequence partly of the increase in the value of imports (despite a sharp fall in their volume of up to 30 per cent.). It was caused overwhelmingly by the shrinkage of exports to a fraction—a minimum of 29 per cent. in 1943—of their pre-war volume. In metal manufactures, which had become the most hopeful and important field for exports already before the war, the fall was even more catastrophic—to 23 per cent. in 1943. This was due not so much to physical necessity; Britain might, after 1941, have insisted on a greater American contribution through the delivery of finished weapons and munitions. It was due to the single-minded, almost reckless, disregard of all consideration of post-war prospects. The

[1] Cmd. 6707, Dec. 1945.
[2] Ibid., table 9.
[3] No estimate has been published of the damage suffered. It can hardly have been less than £500 million.

mobilization of manpower by Britain was the highest among all belligerents except, perhaps, the Soviet Union. In contrast to this, the United States in the Lend-Lease Agreement insisted on severe restrictions on British exports and required various undertakings about post-war economic policy.[1] Lend-Lease itself can hardly be regarded as more than a partial and belated measure to distribute the sacrifice due to the war more equitably.

The vacuum created by the disappearance of Britain and Germany as exporters was, to some extent, filled by home production overseas; in the first years of the war, moreover, American exports rose to a new decisive significance.[2] Thus the inevitable decrease in British influence and loss of connexions, due to the forced liquidation of assets, was much intensified by the disappearance or weakening of reliable commercial outlets. This was perhaps most menacing in the important South American market where sentimental ties were less close than elsewhere. It was, therefore, only to be expected that Britain would not easily regain old markets nor win new ones after the war. The diminution of shipping—from 22·1 million tons deadweight in 1939 to less than 16 million tons deadweight at the end of the war—further aggravated the position. The pre-war tonnage of shipping was reached again only in 1950.[3]

(*b*) *Loss of income.* Income from overseas investments, which had amounted to £205 million in 1938, consequently fell to £153 million in 1946. Despite a vigorous recovery it did not reach the pre-war level until 1950; and the loss of Persian oil, presumably, will once more diminish the rate of gross receipts, though in the first-half year of 1951 they amounted to an annual rate of £270 million. On the other hand, the interest due on foreign debts or on foreign investments in Britain increased from £30 million in 1938 to £80 million in 1946, and showed a further expansion to an annual rate of £130 million in the first half of 1951. In future years not less than £65 million has to be added for the service of the American and Canadian loans spent so rapidly in 1946–8.[4]

Thus *net* investment income fell from £175 million in 1938 to £73 million in 1946 and only recovered to an annual rate of £120 million in the first half-year of 1951. Since average import prices

[1] Cf. pp. 499 *et seq.*

[2] The structure of American industry inevitably adapted itself to this position, thus complicating post-war reconstruction.

[3] Cmd. 6707 and *Digest of Statistics.*

[4] They can hardly be considered as different from war debts. Cf. below.

have multiplied fourfold, this means that the real purchasing power of British foreign income had fallen roughly to £30 million in terms of 1938 import prices, or less than a quarter of the pre-war level, and seemed likely to disappear altogether. To put it the other way, Britain's pre-war foreign real income would be worth some £700 million to £800 million at present prices, or nearly 8 per cent. of the national income. Here is a loss of real wealth which goes some way to explain the difficulties Britain experienced in restoring consumption standards, although material output was rising rapidly after 1946.

(c) *Government expenditure.* It is clear that the Government did not, until a very late date, acquire full consciousness of the seriousness of Britain's international prospects. A thorough pruning of commitments would have enabled the country to live within its reduced means. It would thus have contributed to the strength of its status.

TABLE I

Government Expenditure Abroad (£ million)

	1946	*1947*	*1948*	*1949*	*1950*	*1951* (1st) half)*	*1946–51*
Military	374	209	113	110	98	114 (57)†	1,018
Administrative	31	32	29	30	36	40 (20)†	198
Relief, &c.	92	63	15	11	11	6 (3)†	198
Germany	40	81	16	9	3	—	149
Total	537	385	173	160	148	160 (80)‡	1,563
Total overall balance	−370	−600	−29	+21	+221	−144	−879

* Annual Rate.
† Actual cost for 1st half of 1951.
Sources: Cmd. 7928 for 1946–7. Cmd. 8379 for 1948–51.

To these current expenditures, grants, loans, and the cancellation of claims have to be added. The consequential burden must have reached some £400 million to which the repayment of sterling liabilities must be added. Some of the additional grants were covered by capital transactions, e.g. the sale of assets, or gave rise to exports which would not have been easy to sell in more difficult markets. A substantial part of the current expenditure, however, either absorbed scarce goods like petrol, or services like shipping,

which could certainly have been sold against dollars, or directly or indirectly diverted them from the market at home.

Lord Keynes, in his famous speech commending the Washington Agreement to the House of Lords,[1] said that the alternative solution would have been to 'build up a separate economic *bloc* which excludes Canada and consists of countries to whom we already owe more than we can pay, on the basis of their agreeing to lend us money they have not got, and buy only from us and one another goods we are unable to supply'. What he ought to have condemned was not so much the alternative to convertibility as the wastage of productive power involved in an obviously futile attempt to assert in some parts of the world a status which, in others, the Government was clear-sighted enough to give up, with great gain in influence and prestige. The dollar loan enabled the continuance of policies which, when the help had been exhausted, left the country with a worse foreign balance than before. A small loan enabling Britain to mobilize her economic power after the abrupt discontinuation of Lend-Lease was probably necessary. It might have been obtained without any strings attached. The limitation of its volume would have forced a salutary retrenchment, and thus helped, instead of hindered the emergence of a satisfactory pattern of international payments which still has not been found. It is interesting to observe that neither then nor since has the main criticism of the adherents of the 'free' price mechanism been directed against excessive government commitments, this central source of British 'unbalance'.[2]

(*d*) *Sterling balances.* The accumulation of sterling liabilities by the end of the war amounted to a formidable total.[3] These liabilities were owed primarily to countries within the Sterling Area but also to others, including some which had once been members and who left it or were excluded after the war, e.g. Egypt, Jordan, Sudan and Israel.

These liabilities represented, in the main, the international reserves of the sterling countries. Most of these countries, including

[1] House of Lords, 18 Dec. 1948. Quoted in *New Economics* (ed. Harris), chap. xxviii, pp. 380–95.

[2] In 1952 the war debts to the U.S. and the maintenance of troops in Germany threatens to add some £200–300 million to this burden.

[3] The accumulation of foreign-owned sterling balances was responsible for occasional financial difficulties as far back as the early 1900's. But the war changed the order of magnitude of the problem.

TABLE 2

United Kingdom Sterling Liabilities (£ million)

	31 Dec. 1931	31 Dec. 1939	31 Dec. 1941	31 Dec. 1945	31 Dec. 1946	31 Dec. 1947	31 Dec. 1948	31 Dec. 1949	31 Dec. 1950	30 June 1951
Dollar Area	..	..	208	36	35	18	19	32	79	73
Other Western Hemisphere	..	..	8	164	213	235	135	80	45	55
O.E.E.C. countries	..	..	208	421	424	480	370	439	395	422
Other non-sterling countries	..	..	183	613	632	573	533	515	494	520
Total non-Sterling Area countries	..	..	607	1,234	1,304	1,306	1,057	1,065	1,013	1,070
Dependent overseas territories	..	..	205	477	495	510	556	583	754	908
Other Sterling Area countries	..	..	460	2,007	1,922	1,787	1,807	1,769	1,976	2,190
Total Sterling Area	..	..	665	2,484	2,417	2,297	2,363	2,352	2,730	3,098
All Countries	411	517	1,272	3,718	3,721	3,603	3,420	3,417	3,743	4,168

Sources: Cmd. 8379 for 1947–51 and Cmd. 8357 for 1931–47.

our Colonies, are poor; thus these reserves signified to them the only immediate hope of replenishing consumer markets starved during the war, or of beginning investment programmes on which their future progress and, in many cases, their social stability depended.

It should be added that only a part of the sterling liabilities could be attributed to agreements on sharing the cost of defence of these countries concluded at the beginning of the war by Mr. Chamberlain's Government. These were laudable in principle, in so far as the other countries concerned were much poorer than Britain, but grave damage was done by the unnecessary inflation in these countries, which multiplied the money cost of the war.[1] The arrangements with India, Pakistan, the Middle East countries, and Egypt, fall into this category. Yet the greater part of these liabilities, and especially those owed to the Pacific Dominions and the dependent overseas territories, were due mainly to the unrequited importation from these countries of vital supplies during the war. Subsequently, no doubt, the export of capital to the Sterling Area, which was not prohibited despite the implicit promise given in the Anglo-American loan agreement, played an important part in maintaining the volume of these liabilities. This capital movement, including 'unidentified' (hot money) flows, amounted to some £815 million between 1946 and June 1951, or far more than the reduction of the war-time or blocked balances of the poorer areas.

All in all sterling balances increased by over £700 million since the war.[2] This was the result of an increase in obligations to sterling countries by almost £1,000 million and a decrease of some £200

[1] It is sometimes argued that these arrangements establishing British financial responsibility for the defence of most Eastern countries were negotiated under duress. There is no dispute about the fact that the cost falling on Britain was artificially increased by the inappropriate financial policy pursued by these countries and the consequent violent inflation of prices. The fact ought not to be forgotten that most of the representatives on the official level of these countries were British Civil Servants; that most of these countries had little or no say in deciding their policy, and that the inflation was mainly due to the British authorities' failure to institute severe enough controls. The feasibility of such controls, even in Eastern countries, was clearly demonstrated wherever able and determined administrators were entrusted with the task, e.g. in parts of the Middle East. It was the pre-war *laissez-faire* inclinations and dogmatism of the British representatives which were the ultimate cause of our present discomfiture (and of the wartime maldistribution of supplies, in some cases resulting in famine).

[2] Cf. Table 3.

million to non-sterling countries. The increase in liabilities to sterling countries hid a further movement. The repayments to India and other countries were more than balanced by an increase in the liabilities to the Colonies and the Pacific Dominions. The repayment of balances actually accumulated during the war—at most some £400 million—can hardly be awarded a decisive role in British embarrassments, as so many have suggested it should. No doubt some of these repayments, e.g. to Egypt, might for other reasons be regarded as quixotic. Nevertheless, to default on debt to poor countries would hardly have been defensible and might have had catastrophic political results. The unrequited exports on this score should be regarded as a contribution to the defence of the non-Soviet orbit. It is rather the unfairness of the burden on Britain, in relation to the contribution of the U.S.A., than the burden itself which should be criticized.

(*e*) *The Sterling Area.* Finally, we must consider the important changes in the character and functioning of the Sterling Area. We have seen that Lord Keynes dismissed contemptuously the suggestion that the maintenance of the Sterling Area would be of the highest value to this country. Such deprecatory views recur from time to time. Occasionally in this country, the discharge of sterling liabilities is opposed. At other times doubts arise as to the need to maintain freedom of capital movement within the Sterling Area. On the other hand, in many of the sterling countries exasperation is expressed about the inability of Britain to deliver goods, and proposals have been made in some sterling countries to adopt a dollar standard.

The very fact that so much is owed to so many countries which are not properly speaking in the Sterling Area, might have warned some commentators about the extreme complexity of this problem. In the first place it is not true that the existence of the Sterling Area confers no benefit on Britain. Equally, membership of the Sterling Area secures, at any rate to the greater part of its members, very decided advantages in assuring them of stable markets. While all the import requirements of Britain cannot be met within the Sterling Area, nor can all sterling supplies be sold in Britain, their reciprocal exchange relation gives them a stability and a common interest which has endured very severe strains and is likely to endure more.

Apart from emotional relationships, which are more stable than

some economists seem to credit, there is a solid basis of mutual interest. A short historical review itself is quite sufficient to prove this point. The Sterling Area, like many other important institutions, has been a spontaneous growth rather than a conscious response to challenge. Before 1914 it comprised the whole world. The Gold Standard was, in fact, a Sterling Standard. The London money and capital markets were the undisputed regulators of international short-term credit and long-term investments. The revolving fund in London of short-term credit outstanding overseas was between £300 million and £400 million (equivalent at present prices to between £1,500 million and £2,000 million) which could be withdrawn at short notice. Britain, moreover, lent up to half of her annual savings abroad, and—up to some £200 million per annum[1]—this represented a large part of the total international lending at that time.

The restoration of the Gold Standard in 1925 reversed this position. The British balance of payments was still favourable, but the surplus was cut in half. At the same time the short-term position of London underwent a fundamental change. Its funds no longer consisted of British liquid reserves alone. They were increasingly foreign-owned, and were held in London either as a matter of deliberate policy or because lenders were attracted thither by favourable interest rates. Gold reserves were not backed by a sound line of defence and proved insufficient when the drain began in 1929.

The reason for this change is not far to seek. The financial apparatus of London had not been weakened by the First World War, and the City retained its expert knowledge and widespread personal connexions. The foundation of its international strength, however, had been narrowed. At home business was depressed. World employment and income were still high and still rising. The volume of funds which tended to seek investment abroad was larger than the reduced favourable balance could carry. London became a heavy short-term borrower.

The Great Depression of 1929–33 uncovered the weakness of this attempt to return to the pre-war situation as if nothing had happened. The London market had been heavily involved in loans and credits to the weakest countries (e.g. South American, Eastern

[1] This contrasts with a private capital export of less than $1,000 million per annum from the U.S.A. after the Second World War out of well over $50,000 million savings per annum.

Europe, and the Balkans). As London's assets froze the creditors of Britain in their turn became apprehensive. The depression further aggravated the current balance of payments difficulty; the liquidity of the country could not be restored by a current surplus. Consequently the depreciation of sterling was invoked to restore the position.

The decision even of countries which, unlike the Colonies and India, had no political ties binding their currencies to sterling, to follow Britain shows the basic origin of the Sterling Area.[1] Britain was their most important market. Not to follow Britain would have meant further deflation and/or the loss of profitable export markets. The greater part of their central bank reserves and private liquid funds were, moreover, lodged in London. A depreciation of sterling would therefore have caused appreciable paper losses and intensified the deflationary pressure. Finally, the stability of the sterling exchange rate was more important for them than the relation to gold because they mainly relied on London as a financial centre.

Thus a number of countries, British and foreign, stabilized their currencies in terms of sterling. This decision was an effective testimony to the economic strength of the U.K. No doubt convertibility of sterling was unquestioned, and convertibility was more important then than it was to become in future, in so far as some supplies had to be obtained from outside the Area. The internal exchange stability conferred a preference on members of the Area in their dealings with one another, and thus tended to make the Area naturally more self-sufficient.

The main question, however, whether automatic or planned convertibility was to be the aim remained unanswered, even unasked, before the war. The importance of this problem is perhaps best brought out by reference to the consequences of the American depression in 1937–8. A slight depreciation of the currency might have been invoked to weaken the force of the deflationary shock, but no attempt was made to use this device. Nor was the framework of the Sterling Area adapted for deliberate measures to maintain employment. Had such a policy been attempted, the strain imposed on sterling due to the increased demand for imports might have been overwhelming and might have enforced some limitation on convertibility. As it was rearmament mitigated the slump,

[1] Sometimes called Sterling Bloc to contrast it with the Exchange Control Area established in 1939.

though it did not prevent unemployment in Britain from increasing to 2 million. Yet even this relative stability in the face of an American slump worsened the balance of trade and resulted in a severe loss of gold, which was further aggravated by a flight of capital. Even so, the international position of Britain was still of unmatched strength. The nominal value of listed long-term investments was estimated as £3,700 million; the total foreign wealth must have been over £5,000 million. Official and unofficial holdings of gold and foreign exchange amounted to another £800 million.

The war-time developments in the framework of the Sterling Area were not altogether unfavourable even though they originated in weakness rather than strength. Control over foreign payments, i.e. payments to countries outside the Area, prevented (or at least slowed down) nervous flights of capital. Capital movements within the Sterling Area, however, remained free.[1] This had momentous consequences for foreign trade. London became the financial clearing centre and all transactions within the Sterling Area were thus provided with automatic finance. Within the Sterling Area, therefore, the dearth of foreign exchange did not impede transactions which were in war physically possible, or in peace profitable.

On the other hand, in relation to territories outside the Sterling Area the availability of foreign exchange, dependent on gold production, on invisible income from outside areas and on exports to them, remained the dominating influence except when, as under the Anglo-French Financial Agreement and Lend-Lease during the war, or under Marshall Aid, similar devices of automatic finance were introduced on a wider scale. Thus the Sterling Area provided a framework within which the mutual beneficial exchange of goods could be maintained irrespective of conditions ruling elsewhere. In fact, during the war, this mechanism was used to enable Britain to obtain supplies without payment. Since then, as the fluctuation of British sterling liabilities clearly shows, a redistribution of supplies has taken place. The Asiatic Dominions benefited by unrequited exports from Britain, and Britain benefited in turn by unrequited exports from the Colonies and Pacific Dominions. The Colonies and the Pacific Dominions forwent immediate payment for their exports.

[1] At any rate so far as Britain was concerned. The practice of Australia since the outbreak of war shows clearly that the control over capital movements is entirely compatible with membership of the Sterling Area.

It should be remembered, however, that a large part of the failure to maintain balance is explained by the more than proportional increase in the price of Sterling Area supplies.[1] The increase in liabilities to the Colonies and to the Pacific Dominions can hardly be termed outright exploitation. It is more accurately described by saying that the effective improvement of the position of the raw material producing countries has been postponed. Nor should it be forgotten that, had effective payment in goods been exacted from Britain, she would have had to take steps to curtail her demand for Sterling Area supplies. Thus prices would have risen less and the eventual gain to these territories would have been smaller. So much for the charge that Britain has derived undue advantages from the Sterling Area mechanism. The problem of the British unrequited exports to the independent Asiatic territories is on a completely different footing. The sustenance given to them should be regarded as an integral part of the policy of maintaining social peace in non-Communist countries. It is, thus, a contribution to the total defence effort and should rank as such in our negotiations with the U.S.A. and other countries to achieve a just distribution of the total burden among the Western countries.

The abandonment of the Sterling Area mechanism on account of these difficulties, as has been suggested, has little to commend it. On the one hand, that mechanism offers a possibility for Britain to restore her international balance without suffering severe deterioration in her terms of trade, as the intimate connexions between the governments and central banks will aid the transfer. In any case the areas within the Sterling Area are complementary rather than competitive. The countries of the Sterling Area provide markets in which British selling capacity is helped by the monetary mechanism: within limits Britain enjoys a subtle preference which is of inestimable value. For most parts of the Area, on the other hand, Britain provides a stable and expanding market. Thus even in cases where dollar sales are possible an abandonment of the reciprocal ties now vouchsafed by the currency arrangements would be shortsighted.[2] The Sterling Area, for all the temporary strains

[1] Cf. *London and Cambridge Economic Service*, Aug. 1950.

[2] This is even more true in cases like that of Australia, where the member itself is a dollar-deficiency country. The demand for 'convertibility' in these cases merely constitutes a plea for higher dollar imports. These would in any case prove impracticable as they are limited by the gross availability of dollars. In the case of net dollar earners—e.g. Malaya or West Africa—the need for

it has experienced, has proved a valuable weapon for maintaining economic balance in an unstable world subject to rapid change.

It would, however, be prudent to learn from our repeated discomfiture. The Sterling Area mechanism represents a standing temptation to try to utilize any improvement twice instead of once only. And this temptation, if not resisted, necessarily results in renewed discomfiture. The process is as simple as it is fatal: whenever the price of sterling exports rises in the U.S.A., i.e. whenever full employment is approached in that country, a sudden improvement is experienced in the balance of payments and with it the reserve position of the whole Sterling Area in relation to the Dollar Area. This leads to immediate demands by the U.S.A. for the relaxing of import controls in the U.K. The propensity to import and the volume of imports rise, but while this is going on the national income of the overseas Sterling Area also rises as a result of the original price increases. Thus imports rise further and endanger the balance of payments.

The British effort since the war

(*a*) *The U.S. loan terms*. The British Government was acutely aware of the immense changes of fortune suffered as a result of the war. They estimated that 'a full restoration of a reliable equilibrium which can persist without measures of restrictions or the other defensive mechanisms of the type with which it is hoped to dispense, may require a volume of exports nearer 75 per cent. than 50 per cent. in excess of the prewar level'.[1] In this estimate little, if any, attention was paid to the probable worsening of the terms of trade, despite the fact that so large an increase in exports (or the loss of investment income) was bound to affect the terms upon which we could hope to exchange our own with foreign products. The Government was obviously at pains to express its willingness to observe the undertakings given to the U.S.A. about 'good-neighbourly behaviour' under the Lend-Lease Agreement. It also accepted the need for a continuation of large scale military expenditure abroad.

There was no possibility of achieving the required expansion of exports immediately. A deficit in the balance of payments of no

sterling goods to be competitive is greater. But even in these cases the disruption of the Sterling Area would result in a fall of exports and thus would make cheap dollar prices seem illusory.

[1] Cmd. 6707, paragraph 12.

less than £750 million was expected in 1946 and of £250 million each for the subsequent two years. Even for 1949 and 1950 a 'more modest deficiency was to be expected'.[1] Thus a cumulative deficit of over £1,250 million had to be covered. Some provision had also to be made for the release of the accumulated sterling balances Total gold and dollar reserves, on the other hand, amounted to only £453 million on 31 October 1945, wholly insufficient in the weakened condition of the country.

It was obvious, even before the war ended, that substantial U.S. assistance would be required if Britain was to regain her international balance without subjecting her population to an austerity worse than that experienced during the war itself. What actually was about to happen, however, seems to represent a normal pattern of international economic relations with the U.S.A. It has repeated itself with alarming consequences in 1950–1; and the end of it is not yet in sight.

The suggestion made by President Roosevelt that there should be a fair sharing of the burden of the war was generally understood to mean that some scheme of mutual aid should continue after the war until economic balance was restored in all Allied countries. But this understanding was unfortunately not embodied into any written instrument nor ratified by the U.S. Congress. As soon as the war with Japan had ended the administration was instructed to halt Lend-Lease. Goods 'in the pipeline' were to be paid for in cash, or at any rate a new settlement would have to be negotiated. This came as a grave shock and its import was not clearly understood even in the U.S.A.

In its place the U.S.A. offered post-war aid in the form of a loan. The British Government was faced abruptly with a choice between accepting the terms of the U.S. Administration (itself dependent on Congress) and attempting to readjust the British economy without external aid, which would have meant a drastic cut in current consumption. It was argued that acceptance of U.S. aid would mean that time could be gained for restarting production and recapturing markets. It seemed that a further cut of consumption below the 1945 standard might be altogether avoided. After six years of war the impulse to accept almost any terms was all but overwhelming.

Even in 1942 the Americans insisted on a 'consideration' for

[1] Ibid., paragraph 18.

Lend-Lease supplies in the form of promises to accept after the war 'rules of the game' in international trade favouring the U.S.A. These conditions cast a shadow on Lend-Lease, that 'most unsordid act in history', from which it was clear to many people that after the end of hostilities, the U.S. Administration would be determined to obtain far-reaching and definite obligations expressed in their own peculiar legal language.

Had the formidable threat to British solvency that the U.S. terms implied been fully realized in Britain, the position, if not satisfactory, could at least have been remedied by constant pressure to secure modifications. What was ominous and disconcerting was that a majority of British experts and politicians welcomed an acceptance of the American approach to the common problem.

If all that went before is completely disregarded, the terms and extent of the U.S. post-war help extended were not ungenerous. Lend-Lease was written off except for $650 million, which represented the value of goods 'in the pipeline'. A line of credit of $3,750 million, or some 30 per cent. less than the estimated need of the country, was put at the disposal of Britain, repayable in fifty instalments bearing a rate of interest of 2 per cent., the latter subject to remission in certain circumstances. These terms were more favourable than those charged, even for government short-term credit, to other countries. The disconcerting fact was the requirement to restore convertibility at short notice and to adhere to a regime of commercial non-discrimination.[1] As Sir Hubert Henderson put it:[2]

> The essential characteristic of the Anglo-American economic agreements, taken as a whole, is that they are designed not to help the correction of disequilibrium in the balance of payments, but to forbid attempts to correct it, if they should seem injurious to American export trade. . . . It is impossible to believe that arrangements which are so inspired can work successfully; and it would be both foolish and dangerous to indulge in the hope that we may compensate ourselves for having to accept American demands which we know to be unreasonable by pressing demands on other countries that will seem no less unreasonable to them.

The volume of additional international reserves created was

[1] None of the official U.K. experts realized that the scarce currency clause was not automatically operative whenever a currency became actually scarce, but only when it became scarce in the Fund, a very different matter.

[2] *Institute of Statistics Bulletin*, 1946, p. 13.

wholly insufficient to cope with the increase in the prospective balances which would result from the acceptance of the new rules.

(*b*) *The overall changes in the pattern of British foreign trade.* The British task was to increase manufactured exports by some 100 per cent. of the pre-war level. If the basic difficulties facing Britain are taken into account the success of British post-war international economic policy in this respect must be considered remarkable. Table 3 shows the developments clearly. Apart from the relapse in 1947 due to the fuel crisis, the improvement in exports was continuous until rearmament caused a renewed structural crisis in 1951. The annual figures, however, do not disclose the temporary discomfiture of 1949. This was due primarily to the fall of American imports of Sterling Area commodities as a result of the U.S. recession but also to speculative withholding of orders encouraged by official U.S. suggestions that sterling should be devalued.

That the overall deficit was reduced is mainly the result of the increase in invisible income (the change between 1947 and 1950 accounted for well over £500 million per annum). The reduction in the dollar deficit was even more remarkable. In this respect the change in visible trade, i.e. the cut in imports from the Dollar Area, was the important factor (over £300 million in the same period out of a total of £450 million). The change from a deficit in the balance of payments with the Sterling Area of some £55 million in 1946 to a surplus of £273 million in 1949 and one of £218 million in 1950 is equally important. Here the pre-war pattern of multilateral trade was being recreated, which enabled Britain to pay for an import surplus from the U.S.A. by accumulating a surplus in its trade with the overseas dependent territories and the independent members of the Commonwealth. The corollary of this movement was the restoration of a surplus of these territories in their commerce with the Dollar Area: in 1947 they still suffered a deficit of £295 million only partly offset by £89 million gold sales to the United Kingdom. By 1950 a surplus of £154 million emerged, fortified by gold sales of not less than £100 million. This enabled Britain not merely to carry a deficit of £107 million in the direct payments of the U.K. with the Dollar Area but to strengthen the common gold reserves.

The adaptation achieved belies the charge that the British economic structure is not flexible. Immediately after the war British imports from the Western Hemisphere rose from 30 per cent. in

TABLE 3

The Balance of Payments of the U.K. on Current Account and some Significant Capital Items
(£ million)

	1946	1947	1948	1949	1950	1951 1st half	1946–51	1948–51
I. *U.K. Overall Balance of Payments in Current Account:*								
(a) Visible	−219	−435	−206	−151	−158	−338	−1,508	−854
(b) Invisible	−151	−165	+177	+172	+380	+216	+629	+945
(c) Total	−370	−600	−29	+21	+221	−122	−879	+91
(1) Of which with Dollar Area:								
(a) Visible	−324	−442	−210	−250	−113	−111	−1,450	−684
(b) Invisible	+9	−113	−52	−50	+6	+2	−198	−94
(c) Total	−315	−555	−262	−300	−107	−109	−1,648	−778
(2) Of which with Sterling Area:								
(a) Visible	+13	+56	+84	+151	+38	−84	+258	+189
(b) Invisible	−68	−21	+148	+122	+180	+130	+491	+580
(c) Total	−55	+35	+232	+273	+218	+46	+749	+769
II. *U.K. Investment:*								
In Sterling Area	−45	+201	+148	+279	+134	+98	+815	+659
III. *Changes in U.K. Sterling Liabilities:*								
To Sterling Area	−36	−129	−66	+11	−278	−368	−966	−801
Other	+74	—	+240	−201	+160	−36	+237	+163
Total	+38	−129	+174	−190	−218	−404	−729	−638
IV. *Sterling Area deficit with Dollar Area:*								
(a) Dependent	−68	−288	+41	+43	+134	+112	−26	+330
(b) Other	−3	−7	−118	−132	+20	+36	−204	−194
(c) Total	−71	−295	−77	−89	+154	+148	−230	+136
Sterling Area gold sales to U.K.	+82	+84	+55	+68	+100	+41	+430	+264
Grand Totals	+11	−211	−27	−19	+251	+190	+195	+395

Sources: Cmd. 8379 for 1948–51 and Cmd 7928 for 1946–7.

* The balances of visible trade shown here do not tally exactly with figures for visible trade given by Mr. Seers in Chapter II, Table 5. The discrepancy is due to the fact that Mr. Seers's figures for 1938 and 1946–7 are from the National Income White Paper Cmd. 8203, while those quoted here are from the Balance of Payments White Paper Cmd. 7928. The reader should note that the official national income and balance of payments estimates are frequently revised.

1938 to almost 45 per cent. of the total. They were subsequently reduced again to below the pre-war proportion, at just over 25 per cent., in 1950. It should be noted that this reduction was steady and continued even in 1951. Sterling Area imports rose from 33 per cent. in 1946 to between 35–37 per cent. in 1950. European supplies from just over 16 per cent. to over 25 per cent. The share of exports to the Western Hemisphere on the contrary increased from 13·5 per cent. in the same period to around 18 per cent., which is above the pre-war proportion of total exports.

Hardly less drastic was the adaptation in the commodity pattern of trade. Imports of food in the same period fell from 50 per cent. of the total in terms of value to below 40 per cent. Raw materials increased in importance from 35 per cent. to over 40 per cent. The import of manufactures was strictly limited. On the export side coal unfortunately vanished as an appreciable element of the total. Metal goods, including vehicles, which, before the war, were below 40 per cent. of the total, rapidly increased to one half. The share of textile exports, on the other hand, remained unchanged, although this was due more to very high prices than to a full recovery in their volume.

The changes in the volume of exports and imports were even more pronounced. Taking 1938 as the year of reference, while the volume of textile exports had not surpassed pre-war levels by 1950, metal exports had increased to over 250 per cent. and the total volume of manufactured exports more than doubled in comparison. The volume of imports, on the other hand, was kept some 20 per cent. below pre-war until the beginning of 1951. This was accomplished despite a rise in industrial output of some 50 per cent. between 1946 and 1950 and a vigorous redistribution of the national income in favour of the lower income groups. This latter change also increased the propensity to import. Without drastic controls, imports could hardly have been limited without a serious deflation or a much greater deterioration in the terms of trade than was actually suffered.

It is true, of course, that the expansion of British exports and the throttling of imports was achieved in a world economic position which was exceptionally favourable. Germany and Japan, which in 1938 represented some 15 per cent. of total world trade, had practically disappeared from the scene. It was mainly the U.S.A., however, which gained from this as the share of her exports

more than doubled (from 15 to 31·7 per cent. of the world total). By 1950 the United Kingdom was nevertheless able to increase her share above the pre-war level, while the U.S. share had once more declined to below 20 per cent.

Since 1950, however, both Germany and Japan have sharply increased their exports. The former's exports increased from \$1·6 billion in the year ending September 1950 to \$3·2 billion in the year ending September 1951; the latter's from \$0·8 to \$1·9 billion.[1] Unless the total volume of world trade continues to expand rapidly it is unlikely that Britain will be able to continue to balance her trade by increasing exports.

The period of 1945–50 viewed as a whole shows a remarkable effort at reconstruction. Exports of manufactures more than doubled while imports were held down rigidly. Invisible income has shown a steady improvement. In 1950 not merely the pre-war but the pre-1929 pattern of trade was re-established; invisible earnings were sufficient to export capital (or reduce liabilities) on a fairly large scale.[2] It should be noted, however, that her liabilities are large and that Britain is richer than most of her dependent areas. Her participation in international development is therefore essential. Moreover, in view of the vast means at the disposal of the U.S.A. the maintenance of British commercial connexions and influence abroad require a substantial export of capital.

(*c*) *The fluctuation in policy*. This picture of almost continuous improvement reflected in the annual figures is to some extent spurious. It hides two severe crises in 1947 and 1949, crises which are more accurately reflected in the fluctuation of British reserves and liabilities. Both these crises—and the subsequent one which lies outside the period under review—have a common origin though their immediate cause differed substantially. In 1947 the expansion of British production had suffered a violent, if temporary, check; in 1949 it was increasing at an accelerating rate. In the earlier period U.S. demand and production were expanding; in the later they suffered a violent temporary decline.

This common origin lies in the policy of abandoning direct controls without due consideration of the effects and in the hope that the favourable turn of events abroad would afterwards justify

[1] Year ending Aug. 1951.

[2] Admittedly part of the large favourable balance in 1950 was due to destocking. But even if this is taken into account the picture does not change basically.

the decision.[1] Each crisis led to hastily devised emergency measures, the more ruthless as they were belatedly improvised. The risk and uncertainty imparted to the world economy by violent fluctuations in British demand was increased.

Throughout these swings of the pendulum the country was exhorted to cut purchasing power drastically[2] so as to abolish, or at least to relax, controls and, when the crisis was upon us, to avoid their systematic re-imposition on the plea that our troubles were due to overemployment and inflation (with the release of 'blocked' (i.e. war-time) sterling balances playing an important if secondary part). Now there is no doubt that there always will be a state of employment (or rather a degree of unemployment) at which international payments balance without loss of reserves and without any 'interference' with the 'free' market mechanism. An increase of unemployment will directly and indirectly limit demand and with it imports. With declining home demand exports will eventually also increase.

If, on the other hand, the ethical and political nature of the decisions is frankly faced, and if the approach adopted assigns a special importance to the maintenance of full employment, and to the promotion of equality in the distribution of income and effective consumption, judgement will certainly not be in favour of 'freer' trade. Discriminating direct controls over imports and the promotion of exports through preferential allocations of scarce materials, grants of financial advantages, &c., will enable a country to balance its payments at a smaller cost because, with their aid, it can avoid, or at least minimize, the deterioration of its terms of trade, and it can maintain employment.[3]

[1] There is a striking similarity between this policy and the decision in 1924 to return to the pre-1914 gold parity in the hope that favourable developments in the U.S.A. would render disagreeable readjustment unnecessary. American pressure, strong and misguided as it was at times, should therefore not be singled out for blame for the ensuing discomfiture.

[2] It has been suggested by some writers that the whole of the 'disinflation' should have come by way of reducing investment and that at the same time controls should have been ended even more quickly than they actually were. This attitude seems to ignore the fact that the accelerated rate of increase in U.S. productivity was one of the main causes of our difficulties. This policy would within a few years have rendered Britain less competitive while exposing her to the full rigours of the effects of U.S. economic progress.

[3] There is also the additional important gain (necessarily neglected by the traditional static approach) of increased investment due to labour shortage and increasing productivity.

The importance of this gain (or rather avoidance of further heavy losses) can hardly be over-estimated. The task of restoring the British balance in face of the loss of foreign income, and the consequent necessity of substituting visible for invisible exports,

TABLE 4

Sterling Area Gold and Dollar Reserves

Date	*Actual reserves in terms of* £ *million*	*Actual reserves in terms of* $ *million*	*Revalued* by price indexes of* *U.K. imports*† £ *million*	*Revalued* by price indexes of* *U.S. exports*‡ $ *million*
1939 August 31	560	2,623	2,132	5,918
1945 December 31	610	2,476	1,508	3,466
1946 December 31	664	2,696	1,453	3,235
1947 December 31	512	2,079	965	2,141
1948 December 31	457	1,856	743	2,004
1949 June 30	406	1,651	690	1,816
September 18	330	1,340	561	1,474
September 30	509	1,425	865	1,564
December 31	603	1,688	965	1,856
1950 March 31	709	1,984	1,064	2,380
June 30	865	2,422	1,298	2,906
September 30	984	1,756	1,377	3,031
December 31	1,178	3,300	1,531	3,596
1951 March 31	1,342	3,758	1,476	3,870
June 30	1,381	3,867	1,381	3,867
September 30	1,167	3,269		
December 31		2,335		

* To show how much the reserves at any date would have purchased in terms of June 1951 prices.

† On the basis of Board of Trade Indexes of average value of imports.

‡ On the basis of index of unit value of exports of merchandise, U.S. Department of Commerce, *Survey of Current Business*.

Source: Cmd. 8379, and *London and Cambridge Economic Service*, Nov. 1951.

have unavoidably inflicted serious losses on Britain. These were intensified by the fact that world productive capacity in food and, to a lesser extent, even raw materials, had shown a relative decline because of the long depression of the 1930's. The emergence, after the war, of a high level of employment, and thus of increased consumption standards, a sharply increasing population trend and the pressure of American technical development have also worked in this direction. There is no reason to expect respite from this pres-

sure which means that only a quickened rate of industrial progress can safeguard the British standard of life.

There has been a rise in the cost of imports in the period 1945–51 amounting to some £900 million per annum in terms of 1951 prices or more than the deficit in the British balance of payments in every post-war year except 1947. The problem has, moreover, been complicated by the need for stimulating as much as possible the expansion of supplies outside the Dollar Area. To do this inevitably represented the deliberate acceptance of further burdens through long-term contracts and guaranteed prices and purchases. (In point of fact far too little has been accomplished in this respect and the weapon of bulk-purchase has been more effective in depressing prices than expanding supplies.)

Given the need to restrict imports and, more especially, to guard against the development of a dollar deficit through indiscriminate purchases in an area where supply conditions were inevitably improving much more quickly than at home, the attempt at 'freeing' trade by restoring convertibility in 1947 was bound to have gravely disturbing results. Large financial reserves had been accumulated during the war, both by individuals and by firms. Nothing except direct control could deal with available purchasing power if a major financial revolution with most unfair social consequences, i.e. a currency reform on German or Russian lines, was to be avoided. Politically the application of such financial shortcuts was not feasible in Britain.

The rapid worsening of the balance of payments between 1946 and 1947 can ultimately be attributed (apart from the direct burden of the Government's international commitments) to the premature and unco-ordinated relaxation of control, both by Britain and by sterling countries. After the introduction of full convertibility, direct and indirect dumping and capital flight ensued, and the rest of the world used Britain to obtain dollars. The gold and dollar deficit rose to £1,024 million in 1947 and the U.S. and Canadian loans were exhausted in a matter of months.

Sir Stafford Cripps's abrupt re-establishment, or tightening, of controls over foreign exchange and imports (his budgets were hardly 'disinflationary') jerked the country back towards external balance. These measures were reinforced by a judicious conclusion of bilateral trade agreements. The Sterling Area followed suit. In consequence there was an immediate and spectacular improvement.

The U.K. deficit with the Dollar Area was cut, and the U.K. surplus with the Sterling Area, and the Sterling Area surplus with the Dollar Area was restored. Finally, the U.S.A. reversed its attitude on international economic policy. Not only did Congress give free grants to Europe far surpassing the potential maximum dollar resources of the Bretton Woods institutions; the U.S. Government also pressed for European 'self-help' and 'economic unification' which, in the context, could only mean the establishment of a strong

TABLE 5

Finance of the Sterling Area Dollar Deficit (£ million)

	1946	*1947*	*1948*	*1949*	*1950*	*1951 1st half*	*1946–51*	*1948–51*
Total net gold and dollar deficit	−226	−1,024	−423	−381	+287	+148	−1,619	−369
Financed by gold reserves	+52	−152	−54	−3	+576	+203	+622	+722
U.S. credit (−used)	−149	−707	−74	..	..	..	−930	−74
Canadian credit (−used)	−130	−105	−13	−33	−16	..	−297	−62
E.R.P. grant (−received)	..	..	−149	−255	−248	−44	−696	−696

Sources: Cmd. 8379 for 1948–51 and Cmd. 7928 for 1946–7.

preferential system in western Europe and the Sterling Area, discriminating against dollar imports. The spectacular increase in production acted as an 'automatic disinflation' and reinforced these measures. It certainly could not be regarded as a primary factor in the improvement.

Hardly was this process initiated before its basis began to be undermined, both in the U.K. and in the rest of the Sterling Area. The restrictions on imports were prematurely relaxed and internal controls were abandoned. Moreover, Marshall Aid was not used to co-ordinate investment plans in Europe, and thus to guard against a relapse into a competitive struggle for dollars.

Nevertheless, so long as the war-time accumulation of pent-up demand and the export surplus, financed by Marshall Aid, were sufficient to keep the prodigious expansion of U.S. productive capacity fully employed, the British position improved. But the sharp setback in production, suffered by the U.S.A. in 1949, enabled U.S. industries to compete successfully in third markets as their delivery periods shortened dramatically. The U.S. Administration, moreover, encouraged bear speculation against sterling

by openly advocating a devaluation of the pound. Under the circumstances, compliance became inevitable, since discrimination against the U.S.A. and trade controls could not be reintroduced in the short run.

Almost immediately after devaluation, U.S. business began to recover and the basic cause of the need for devaluation was removed. Instead of appreciating sterling, and thus minimizing the strain on internal stability, further relaxation of controls was carried through (or rather the cuts in imports decided upon prior to devaluation were not given effect) though Britain did not accede to sharp U.S. demands for 'full return to freedom' in international trade. The control of imports from Europe was, however, virtually abandoned with the organization of E.P.U. which opened the Sterling Area to Germany and other industrial competitors. A rapid increase in the price of Sterling Area exports sustained the common reserves and lent the recovery the same spurious look of stability as the U.S. boom did in 1926–9. By the middle of 1951, however, these favourable factors disappeared and the country found itself once more in a severe balance of payments crisis.

Balanced controls cannot be built up in a matter of days. The sole alternative in case of serious unbalance is unemployment, sufficiently severe to limit consumption and discourage investment effectively. In the vacillation of policy between direct controls and 'free' markets, the economic system of this country has been more sharply interfered with than would have been necessary, if a steady policy of restraint had prevailed throughout.

The post-war international economic settlement

The representatives of both the U.S.A. and Britain seem to have been unaware of the long-run implications of the immense structural problems created by the war. They thought in terms of a short period of readjustment after which the world would return to 'normal'. Yet western Europe's productive capacity, income earning assets, and markets had been grievously weakened. The U.S.A., on the contrary, had risen to unquestioned dominance. The very inequality in wealth and investment power was bound to threaten the stability of the world system.[1] Not only was domestic stabiliza-

[1] Cf. my article: 'The U.S. and world economic stability' in *A Foreign Economic Policy for the U.S.*, edited by S. Harris.

tion in America made much more difficult, but the vulnerability of the rest of the world had much increased. International reserves were concentrated in the U.S.A. and marginal overspill from the U.S.A. (either in the direction of inflation or deflation) assumed a threatening importance.

In the case of the U.S.A. this ignorance seems comprehensible; but Britain has been suffering from continued international unbalance, in one form or another, ever since the decision was taken, in 1925, to return to the pre-1914 gold parity. By 1941, when the negotiations about the Lend-Lease Agreement were starting, it should have been clear that Britain, after the war, would no longer be able to rely on her foreign assets to bridge any temporary gap in the balance of payments. Unless U.S. domestic stability could be guaranteed, and substantial U.S. aid to foreign countries continued, so as to diminish the discrepancy between the wealth and progress of the various regions of the world and to sustain demand for industrial products, the prospective position of Britain would be desperate. To have foregone quantitative regulation of imports and bilateral monetary and commercial agreements would have meant not merely the acceptance of onerous terms of trade but, unless U.S. help was adequate, the abandonment of all hope of maintaining employment at a high level.

The British and American plans for the rules of post-war commercial policy, nevertheless, showed a surprising unanimity. Discrimination (with the exception of Imperial Preference) was to be outlawed, and quantitative import restrictions prohibited. It was in the monetary sphere, where Lord Keynes took an active interest, that some difference of opinion occurred. In order to justify the adoption of the proposed commercial rules, and to extend non-discrimination to the monetary field, effective assurances had to be obtained that domestic stability would be preserved all round or, alternatively, that sufficient additional international reserves would be made available to cope with balances which might arise, because of a slump or unemployment in a major country.

Lord Keynes's proposals sought to provide such assurances by establishing a World Central Bank. This would have had power to create additional monetary reserves as required by the international monetary position by rediscounting bills of the central banks of the member countries. This proposal was thought to be inacceptable to the U.S.A. and it was modified already before it was submitted

to the Americans. In this second version any member of the 'Clearing Union' (which took the place of the Central Bank) could only borrow up to a limit. Creditors however were discouraged from running persistent surpluses by being charged a commission on their balances. The only reminder of the original scheme was the illogical retention of a special accounting unit. The maximum size of the Clearing Union was made to depend on the monetary value of foreign trade and an automatic mechanism of adjustment (favouring Britain) was provided. This would have prevented general price movements or economic progress from reducing the effectiveness of the new institution. The British plan eventually submitted to the Americans—at some $25 billion—curiously anticipated the eventual order of magnitude of U.S. help granted up to the beginning of rearmament.

The American plan seems to have been designed before the war. It might have been quite useful then, as an adjunct to the Tripartite Monetary Agreement of 1936. It was wholly insufficient and, therefore, exceedingly dangerous in 1944. Instead of a flexible scheme, a Fund of some $5 billion was to be established, of which half was to be paid in immediately; the rest was to be called when needed—subject to the consent of the creditor countries. Part of the subscription was to be paid in gold; the rest in the home currency of the member. The member was to have the right to purchase the foreign currency contributed by other members up to a certain portion of his own total contribution. If the currency of a country in the fund became exhausted—and no further contribution by the creditor was made to avoid the consequences—that currency could be declared 'scarce' and would be rationed. All members would then resume their freedom of action and could in their turn ration foreign exchange or imports from the 'scarce currency' country. The scarce currency clause thus appeared to provide for a co-operative monetary discrimination against persistent creditors. It was this particular aspect of the U.S. plan which appealed to many in this country. They did not realize that the Fund was well protected from raids by 'undeserving' debtors; and that the chances of a major currency becoming scarce as soon as its owner developed an extreme balance of payments surplus (e.g. because of a slump) were, to say the least, slender. In the 'scarce currency clause' the restrictions placed upon the rate of borrowing by deficit countries meant a delay of three years and more before a scarcity would

arise.[1] Thus the picture of a tremendous and immediate pressure brought to bear on an undeserving creditor was as fanciful as it was attractive.

In the end a 'compromise' was arrived at between these plans.[2] The joint scheme of the Anglo-American experts, together with a further scheme for long term lending, were submitted to a Conference of U.N.O. called at Bretton Woods. It is interesting to note that the U.S.S.R.—which eventually did not adhere to the final instrument—throughout supported the U.S. conceptions, and tried as much as possible to narrow and weaken any reforms. They were entirely at one with the U.S.A. in insisting upon the untrammelled sway of the free price-mechanism—in the non-Soviet orbit.

The 'compromise' reached was much nearer to the 'White' than to the 'Keynes' plan. A subsequent meeting, held at Savannah in order to put the finishing touches to the detailed organization of the two institutions, further weakened their independence of U.S. political pressure. Indeed, as the reports of the U.S. National Advisory Council on International and Financial Problems clearly indicate, the U.S. Government now regards both institutions as convenient—and obedient—instruments of U.S. policy. This confidence is entirely justified. Voting power is initially proportional to the amount of the quota of the country. It is further increased as a country becomes a 'creditor' and is reduced when it is in debt. The U.S.A. has over a quarter share of the initial total and is a persistent creditor. The Nationalist Chinese on Formosa have a quota slightly in excess of France, and more than three times that of Italy, and this is at the disposal of the U.S.A. together with those of most of the Central and Southern American States whose votes make up in numbers what they lack in economic weight.

The greater the quota of those countries whose currencies might become scarce, the more substantial the addition to the sum total of usable international reserves. From this point of view the fact that the two North American States contribute slightly more than $3,000 million out of a total of some $8,000 million is, therefore, all to the good. But in the 'compromise' the Fund was stringently 'protected' against 'abuse' by undue borrowing. Thus countries

[1] See 'New Plans for International Trade', Supplement No. 5, *Institute of Statistics Bulletin*, 1943.

[2] Joint Statement by Experts on the Establishment of an International Monetary Fund.

could use only a quarter of their quotas each year unless a qualified majority waived this rule (i.e. U.S. consent was obtained). In any case stiffly increasing interest could be charged for temporary accommodation. The creditor, on the other hand, suffers no penalty to encourage him to try by expansionist policies to stop the drain on the world's liquid reserves.[1] This meant that even if all members other than North America together suffered from a dollar crisis and drew upon their quotas simultaneously—a most unlikely contingency—they could only borrow slightly in excess of $1,250 million per annum. It would therefore take several years before the dollar could be declared scarce. The supply of dollars at the disposal of the world fell from $7·5 billion in 1929 to $2·3 billion in 1933, i.e. by more than $5 billion per annum. In 1949 the fall in supply (apart from unilateral transfers) was almost $1,000 million a year. Yet, in both instances, foreign countries were free to take measures to protect themselves which would no longer be permitted under the new 'rules'. It was clear that the dollar could hardly become scarce in the Fund at the same time as outside, yet meanwhile members were to be bound by the rules of non-discrimination.

On American insistence, access to the Fund was limited to cases where it could be shown that the demand for help did not cover a long term or 'fundamental' disequilibrium. This concept was never defined. So long as all the countries were not bound by the rules of the Gold Standard game, it could indeed hardly be defined: for adverse balances in international payments might well arise as a result of deflationary pressure abroad rather than 'overvaluation' of the debtor's currency, and no one can be sure whether devaluation by, or deflation in, the debtor country is the more appropriate remedy. The situation may even require quantitative discriminating import restrictions coupled with bilateral trading agreements.

It is clear, however, from Lord Keynes's speech to the House of Lords that little misgiving had been felt on this score. It seems that the conviction had gained ground in Britain that any social or employment policy in any country could always be made compatible

[1] And thus speed up the time needed for the dollar to become scarce. But even the most enlightened Administration can hardly be expected to concur actively in measures which would harm U.S. export interests at a most unfavourable moment.

with any other, however divergent, policy elsewhere, provided the right of devaluation was safeguarded. Now the U.S. Administration really wished to rule out fluctuating exchanges and render changes in foreign currency parities difficult, because it feared competitive exchange depreciation almost as much as the other sin of 'discrimination'. In the end, the compromise was reached of making large-scale devaluation dependent on the consent of the Fund.[1] This together with permission (or rather the duty) to prevent the export of capital when using the Fund's resources was thought to be sufficient safeguard for all countries which tried to maintain full employment.

All this was conceived on the assumption that the demand and supply of exports and imports would prove very sensitive to price (and exchange rate) changes. Pre-war experience to the contrary was dismissed by referring to the new 'rules of the game', by which creditors were prohibited from 'retaliating' against measures taken in conformity with these 'rules'. The misgivings felt by some that governments, especially in creditor countries, would not submit to the new rules, if important interests were harmed, were brushed aside. That such misgivings were justified was fully borne out in the experience with G.A.T.T. to which reference will be made later.

It was also argued that the response of the economic system to such changes in exchange rates ('elasticities' of demand and supply) would be much stronger in the long than in the short run. Whether this is accurate, however, would entirely depend on the cause of the disequilibrium. If the unbalance were caused by a deepening depression, it is very unlikely that the debtor's devaluation would not be matched either by deflation or by other measures.

It was assumed that a five-year period would be sufficient to liquidate the overhang of the war and restart the 'normal working of the price mechanism'. After 1952 any member retaining exchange controls was to consult with the Fund and those countries which were regarded 'as unduly dragging their feet', as an American commentator put it,[2] would be denied the use of the Fund's resources. In point of fact, the Fund's operations have amounted to

[1] Even the power of coercion implicit in the grant of Marshall Aid was insufficient to secure compliance by western Europe with the rules of the Final Act of Bretton Woods.

[2] Ellsworth, *The International Economy* (New York, 1951), p. 764.

some $800 million during the first five years of its existence. Marshall Aid and other U.S. unilateral help topped the $20 billion mark, even if Lend-Lease, U.N.R.R.A., and related war-time measures are excluded. The insufficiency of funds and the rigidity of the charter of the Fund have led to wholesale violations. 'Disorderly', i.e. multiple, currency rates were maintained in many parts of the world, exchange control was not relaxed, and even Canada, a staunch protagonist of the original U.S. conceptions, abandoned a fixed parity with gold, thus disobeying the 'rules'. Monetary discrimination, of which the European Payments Union and the Sterling Area Dollar Pool are the best examples, have received U.S. blessing as they are so urgently and obviously needed. Finally, the premium on gold established in 'free' markets has also been accepted. The U.S.A. could not be persuaded (despite a clause of the charter permitting it) to consent to a general appreciation of gold so as to bring its price in line with world import prices (and stimulate gold production, the only import for which the 'elasticity of demand' in the U.S.A. is really high).

International investment

Simultaneously with the currency plans, the Anglo-U.S. experts also elaborated a plan for establishing a development *fund*, somewhat contrarily called an International *Bank* for Reconstruction and Development, to help overcome the devastation of the war and to promote international investment. It was thought that, by arranging lending in a counter-cyclical fashion,[1] or at any rate being willing to entertain investment plans during a depression when the private market might be unable and unwilling to do so, the institution might provide a valuable adjunct to the Fund, even in currency matters. After his more comprehensive plans on currency reform had been clipped by British caution and American opposition, Lord Keynes turned his attention and hopes to this escape route from a return to the recurrent depressions of the inter-war period.

These hopes were also disappointed. The Bank was given insufficient resources —in effect only the $3–4 billion subscribed or

[1] The unsettling effect on the undeveloped countries of this policy received as little attention as the social effects of its domestic counterpart of starting and stopping public works to accommodate fluctuations in private investment.

guaranteed by the U.S.A. and a few hard currency areas[1] could be regarded as usable. Even more frustrating has been the restriction that the Bank could only finance the actual foreign expenditure arising out of approved projects, and that it could approve only definite and specific projects but not finance general development. The first made many projects impossible, as national income (and imports) were bound to rise, or exports to fall, as a result of any capital expenditure. The incapacity of the Bank to finance the secondary deficit made it impossible for poor countries to accept loans. The second—only abandoned much later—ruled out many promising general development schemes. As specific projects might depend on such schemes to be profitable at all the scope of the new institution was hardly an improvement. Moreover the Bank's charges were considerable—interest of between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. to which a commission of 1 per cent. was added. This ruled out basic schemes of development which would not yield immediate returns but would be essential for raising the standard of life. In fact only an infinitesimal part of the Bank's resources was used, only some $600 million in six years and the bulk of this for political loans (e.g. to France).

Commercial relations

The Anglo-American experts also evolved complicated rules for a 'Commercial Union', as the British plan was called, or for an International Trade Charter, as the U.S.A. termed it. These rules outlawed, after a brief transitional period, all forms of discrimination (including new preferential tariffs and quantitative import regulations) and limited all quantitative control of trade to exceptional periods of emergency. They also subjected state trading to rules, derived from the elementary theory of perfect competition, and sought to prevent the establishment of reciprocity in current transactions, e.g. by way of barter or bilateral bulk-purchase agreements. Long-term agreements on production and exchange were also discouraged.

These rules were calculated to hamper, or even prevent, poor countries from re-establishing equilibrium without unduly worsening their terms of trade. No regulations were devised, however,

[1] The U.K. could extend no help as her strength was fully mortgaged for the repayment of sterling balances and providing development schemes in the dependent areas.

against tied loans, the principal means of discrimination of creditor countries, nor were international services subject to regulation. Indeed, state enterprises were expressly permitted to discriminate in their purchases between member countries provided they received tied loans. The prohibition of *export* subsidies also favoured rich countries as *general* subsidies were not outlawed.

Even if international monetary demand were to be well maintained, poorer and smaller countries would have been gravely handicapped by these rules as they would have had to forego any longer-term planning of their foreign trade and internal development in order to offset the advantages accruing to those of their competitors who based their mass production techniques on the existence of vast and well-protected internal markets. The scale of industrialization of a country as a whole is one of the most important determinants of costs.

After several attempts to obtain agreement, the Havana Charter was at length produced. The poorer countries obtained quite useful concessions. Britain and western European countries, whose problems had been vastly aggravated by the war, were less successful. The establishment of preferential treatment was permitted for development purposes but was disallowed for 'mature' economies. Discriminating quantitative import control was also permitted but only temporarily for the correction of balance of payments disequilibria, and was to be abandoned at the first possible moment. The unsettling effect of these changes, and the difficulty of instituting direct controls were disregarded. The basic bias against small and poorer manufacturing areas remained.

Fortunately the Charter was never submitted to the U.S. Congress for ratification; the Executive feared that it would be rejected because the escape clauses which had been granted were too sweeping. Thus only the General Agreement of Tariffs and Trade (G.A.T.T.)[1] which had been negotiated between the more important trading countries remained. This attempted to introduce similar rules without the formality laid down in the I.T.O. Charter, and without a permanent executive organization, and also to secure tariff concessions. Several meetings of the contracting parties were held but little progress was made. American attempts to force

[1] G.A.T.T. was originally arrived at as an interim measure of trade liberalization pending the establishment of the International Trade Organization charged with the administration of the Charter.

Britain and western Europe to abandon discriminatory quantitative controls miscarried. Had they been successful they would have impoverished Europe further, as they implied unilateral concessions to the U.S.A. The terms of trade would have been still further turned against Europe (and/or a sharp monetary deflation would have had to be enforced because of the loss of reserves). As the U.S.A., contrary to the Treaty, introduced severe quantitative prohibitions on agricultural imports and unilaterally denied advantages contractually secured to other countries, her moral protests did not carry too much weight. Against the background of growing East–West hostility, moreover, the Americans did not feel inclined to use the big stick of commercial and monetary retaliation against 'free' countries by which they undoubtedly could have secured all the advantages they desired at whatever cost to the poorer countries.

Conclusions

The shortcomings of the post-war economic settlement were soon exposed. The European dollar crisis, culminating in the breakdown of British convertibility, was followed, on the one hand, by Marshall Aid and, on the other, by the recognition of the need of European (and other poorer) countries to maintain discriminating exchange and quantitative foreign trade controls. Both resulted in a beneficial redistribution of income in favour of western Europe.

From time to time efforts have been made to revert to the earlier 'rules' of the game. In 1949, devaluation was enforced by the U.S. Treasury in order to permit the ending of the obnoxious protective measures to which other parts of the American Administration had consented. In 1950, as the British balance of payments improved, prior to the rearmament crisis, heavy pressure was exerted to secure a 'liberalization of trade' by Britain and other western European countries.

This plea for the unconditional restoration of the sway of the price mechanism has been based in some quarters on welfare economic considerations. Its advocates, however, have failed to show that the national income of the (poorer) debtor countries would decrease less (or increase more) if they adopted non-discriminating measures such as deflation or devaluation. It is not sufficient to show that credit restriction or a depreciation of the currency would increase exports or decrease imports.

A more hopeful line of approach has been adopted by the two expert Committees, nominated by the Secretary General of the United Nations Organization, to report on the reform of the existing international institutions. The first of these reports on *National and International Measures to Maintain Full Employment*[1] tried to evolve an automatic system of lending to counteract slumps. It also advocated much intensified international lending to develop poor areas as a means of decreasing the danger of disequilibria. A second report on *Measures for the Economic Development of Underdeveloped Countries*[2] took this second idea and tried to estimate the order of magnitude of the required help. A purely U.S. document, the *Report to the President on Foreign Economic Policies*[3] (the so-called Gray Report), recognized the urgency of the problem and admitted the fact that private foreign investment could only play a limited role.

The far-reaching plans of these two U.N.O. Reports aroused violent hostility. Nevertheless, there was hope that slow progress might be made towards the establishment of a truly International Central Bank with discretionary powers to create international reserves and of an International Investment Board, charged with the international equilization of wealth and income through grant-financed investment.

Unfortunately, rearmament has led to renewed inflationary pressure, and seems to justify those who claim that the world is faced with a permanent threat of inflation. The fact seems to be overlooked that the violent expansion and distortion of the productive mechanism due to rearmament requires increased, rather than decreased, international co-operation, if disarmament or even stabilization of armament expenditure, is to be faced without a crisis in the western world. The U.S. Report to the President of the International Development Advisory Board[4] (the so-called Rockefeller Report) represents from this point of view a formidable backward step. It hopes to secure international equilibrium primarily by private U.S. investment and vastly underestimates the order of magnitude of the problem. The U.N.O. Report on *Measures for International Economic Stability*[5] merely suggests that the funds at the disposal of the I.M.F. should be increased. Yet

[1] New York, Jan. 1950.
[2] New York, May 1951.
[3] Washington, 10 Nov. 1950.
[4] Washington, Mar. 1951.
[5] New York, Jan. 1952.

even its present means have never been used and are unlikely to be used if the Charter of the Fund is not reformed. The obligation to repay borrowings, reinforced by high rates of interest, is sufficient to prevent an effective international policy for income stabilization. Nor is the proposed counter-cyclical lending by the International Bank calculated to increase stability in poorer areas. It can be likened to the ineffectual proposals of the British War-time Coalition Government to secure a 'high and stable' level of employment.

An enlightened policy should be based on the avoidance of slumps. This might be secured by a sufficiently large flow of free grants to under-developed areas; and this policy would, at the same time, reduce international inequality and thus contribute to lessening social tension. The transformation of the I.M.F. into an effective Central Bank would provide a safeguard against unforeseen disequilibria. It has been shown, by the events of 1950, how smoothly balance of payments readjustments can be accomplished if only the major creditor country returns to the rules of the Gold Standard game and maintains demand at over-full-employment level.

It is to be hoped that the present retreat from a rational approach to international economic problems represents a temporary phase only. As long as it lasts, poorer countries will have to retain their right to use discriminating import restrictions and reciprocal trade agreements in order to maintain a balance in their international payments without a further severe worsening of their standard of life.

CHAPTER XXIII

BRITAIN AND EUROPE

By J. R. SARGENT

AT the root of Europe's balance of payments difficulties there lie three different types of problem. The first is a permanent change in Europe's economic position *vis-à-vis* the rest of the world, embodied in her loss of overseas investments, coupled with the incurring of debt, and in the worsening of her terms of trade. The second is temporary and shows signs of passing. It arose very largely from the inevitable dislocation of the war and its aftermath, felt both at home and in the failure to recover the pre-war volume of supplies, mainly raw materials, from the primary producing countries of the east. The difficulties under this head were unduly prolonged in Europe itself by the slow recovery of agricultural production and the disappointing performance of British coal exports. The third problem was less 'real' than financial, but none the less aggravating for that. It arose from the changed relationship of the United Kingdom to the rest of Europe in its balance of payments. Continental Europe, taken in isolation, has for some time had a deficit in its current account with the rest of the world outside the United Kingdom, and to fill this gap has been used to calling in its surplus with the United Kingdom, converting sterling freely into any other currency required. Today the convertibility of sterling is limited. But it is not so much this that has disrupted the traditional pattern of multilateral payments as the fact that a surplus with the United Kingdom has been replaced by a deficit.

This is true of Europe as a whole. But it masks the emergence in recent years of a deficit in the trade of the United Kingdom with the countries of eastern Europe.[1] Here there has been a return to something like the pre-war pattern of multilateral settlements. For the surplus sterling accruing to eastern European countries has been used in the purchase of raw materials from overseas, particularly in the Sterling Area. This was noticeable in 1948 when the

[1] By eastern Europe is meant Bulgaria, Czechoslovakia, Rumania, Yugoslavia, Hungary, Poland, and the U.S.S.R. Certainly these countries have, from 1948 to 1950, earned a surplus in their merchandise trade with the U.K. Data concerning invisible transactions with these countries are hard to come by, but are not likely to alter the picture.

surplus first appeared. In that year Russia and Czechoslovakia, both of whom are members of the Transferable Accounts area, made purchases of a value of almost £50 million in the sterling area and Egypt.[1] Here lay, perhaps, the seeds of a multilateral system within Europe, with an east European surplus with the United Kingdom helping to finance a west European deficit. But this would have called for a west European surplus with eastern Europe, and in fact the opposite has been the case, despite the low level of imports by the west from the east. This latter aspect of east–west trade is the same for the United Kingdom and the rest of western Europe. Although the United Kingdom has returned to a trading relation with eastern Europe which is similar to that which existed before the war, and with western Europe has failed to do so, it is true for both the United Kingdom and for western Europe that the pre-war volume of east–west trade has not been regained. Indeed, in 1950 it even receded somewhat from the level reached in 1949.[2] For the United Kingdom and western Europe alike this drying up of an important source of supply of primary products has aggravated the dollar problem. It depends on one's personal pessimism whether or not it should be classed, with the loss of overseas investments and the deterioration in the terms of trade, among the permanent changes in Europe's economic position.

The disappearance of the United Kingdom's traditional deficit with western Europe[3] has knocked away one of the props upon which western Europe rested in balancing its pre-war trade. This new development of a surplus with western Europe arises more from a large expansion of the volume of United Kingdom exports to western Europe than from the decreased volume of United Kingdom imports from that source. But it is the latter which has caught the attention of the sufferers. In 1946 the United Kingdom was importing only 46 per cent. of the 1938 volume from its partners in the Organization for European Economic Co-operation (O.E.E.C.) and in 1949 the proportion had only risen to 83 per cent.[4] Many on the Continent felt that it was surely illogical of the United Kingdom to restrict its imports from western European countries below the pre-war level, and then to make grants, loans,

[1] *E.C.E. Survey 1948*, p. 155.

[2] Ibid., *1950*, p. 111.

[3] By western Europe is meant those countries which are participants in O.E.E.C.

[4] *Second Report of O.E.E.C.*, diagrams xix and xx.

and releases of sterling balances to help them over the resulting deficit. The need for British assistance could have been eliminated altogether by a more liberal import policy. Moreover, this would have assisted the restoration of multilateral trade. Western Europe was struggling with a deficit with the Sterling Area. At the same time the Sterling Area had a deficit with the United Kingdom. To complete the triangle, an import surplus into the United Kingdom from western Europe was required. In this way the Sterling Area could have used its surplus of western European currencies to finance its deficit with the United Kingdom and this the United Kingdom could have spent in liberally importing from western Europe.

Such arguments ignore many questions. They take no account of the kind of goods which a liberal import policy might have brought to the United Kingdom. The slow recovery of European agriculture, which could have supplied goods of which the United Kingdom was very much in need, diminished their force. Again, there were prices to consider, and these were high in many European countries. These are matters on which no judgement in general terms can be passed. But it can be shown that the British export surplus was by no means so damaging to west European interests as might be supposed; for it was not incompatible with the provision by the United Kingdom to Europe of a considerable amount of hard currency.[1] During the five post-war years from 1946 to 1950 the countries of western Europe incurred a total trading deficit of £274 million with the United Kingdom. This was offset to a small extent by capital movements and to a considerable extent by grants from the United Kingdom, while some contribution was made to reducing the remaining deficit by payments in sterling from third countries. Nevertheless, there still remained £73 million of sterling to be found. In spite of this, the British authorities allowed the conversion of a further £73 million into gold and dollars, and the necessary sterling for the two purposes was provided by the Exchange Equalization Account, by the European Payments Union (E.P.U.), and from sterling balances belonging to the countries of O.E.E.C. In this way the United Kingdom continued to discharge something of its traditional role in the payments system of Europe, although the basis of it, the deficit with western Europe, had disappeared.

[1] See Table 1.

TABLE I

Index Numbers of Industrial and Agricultural Production, Import and Export Volume, and Terms of Trade of European Countries
1938 = 100

	1946	1948	1950
Industrial production:			
O.E.E.C. countries	73*	98	124
Eastern Europe† (excl. U.S.S.R.)	68	80	121
Total Europe‡	72	96	124
Agricultural production:§			
O.E.E.C. countries	88	97	100
Eastern Europe¶ (excl. U.S.S.R.)	66‖	78	78‖
Total Europe‡	81	91	93
Import volume:			
O.E.E.C. countries** (excl. Greece and Portugal)	73††,§§	88§§	104§§
Other Europe (incl. U.S.S.R.)**, ‡‡	38	91	113
Total Europe	66	88	106
Export volume:			
O.E.E.C. countries** (excl. Greece and Portugal)	59§§	90§§	137§§
Other Europe (incl. U.S.S.R.)**, ‡‡	27	61	87
Total Europe	51	83	124
Terms of trade:‖‖			
O.E.E.C. countries (excl. Greece and Portugal)	102	91	84
Total Europe (incl. U.S.S.R.)	104	98	90

* Portugal and Turkey excluded in 1946; no figures available.

† Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and the Soviet zone of Germany; no figures available for Yugoslavia.

‡ Includes Finland and Spain.

§ 1934–8 average = 100. The years referred to are the crop years 1946–7, 1948–9, and 1949–50.

‖ The 1946–7 figure is liable to be inaccurate because no figure is available for production in Poland in that year which accounts for a third of east European output. In 1949–50 there were no figures for Bulgaria or Rumania, which together produce a sixth of east European output.

¶ Including Yugoslavia.

** Including imports from and exports to each other.

†† Excluding Italy and Austria; no figures available.

‡‡ As no figures are available for Portugal and Greece, which are O.E.E.C. members, they are included here with Other Europe.

§§ Germany is included as follows: 1946 = all Germany; 1948 = U.S./U.K. zone; 1950 = all Western zones. The 1946 figures do not cover Austria and Italy for which no figures are available for that year.

‖‖ Indices of unit value of exports divided by unit value of imports. A fall in the index thus reveals a deterioration in the terms of trade. Unit value indices were obtained by dividing a value index by a volume index.

This is the general picture; but it is misleading in one respect. The bulk of the gold which the United Kingdom paid to other members of O.E.E.C. between 1946 and 1950 was not evenly spread among the members but went largely to one or two countries who were in the position of persistent and ultimate creditors. Here lies the basic reason why Britain was unable to adopt the liberal import policy which many on the Continent desired. Belgium and Switzerland, in spite of themselves having liberal import policies, were continually in surplus with the rest of western Europe.[1] With both these countries the United Kingdom had payments agreements which provided for gold settlements of debts arising from current transactions once certain fairly narrow limits had been passed. Switzerland would hold up to £5 million of sterling under an agreement concluded in March 1946, but after that would require to be paid in gold. The agreement with Belgium,[2] signed in March 1948, provided that she should hold sterling up to £12 million before demanding conversion into gold, although the operation of this limit was delayed by the repayment of certain debts to the United Kingdom, amounting to £15 million, out of currently accumulating sterling. For the United Kingdom to have expanded imports from these two countries would have constituted a direct threat to the gold and dollar reserves held not only for the United Kingdom itself but in trust for the whole of the Sterling Area. But the situa-

[1] Except in the fourth quarter of 1949.

[2] The agreements with Switzerland and Belgium can be found in the Treaty Series of White Papers.

Notes to Table I.

Industrial production: Taken from E.C.E. *Economic Surveys of Europe*; for details of sources and construction see particularly Appendix B of the *Economic Survey of Europe 1950*. Weights are proportional to net output in 1938.

Agricultural production: Taken from F.A.O. *Yearbook of Food and Agriculture Statistics, 1950*. Weights are proportional to agricultural gross output in the average of 1934–8.

Import and export volume: Taken from E.C.E. Surveys. Figures for Other Europe are less reliable than for O.E.E.C. since the former were calculated by their implied value in the general European index after allowing for the O.E.E.C. figure. The figures separately available for Other Europe are inadequate for a direct calculation. Weights are proportional to 1938 dollar value of imports (c.i.f.) and exports (f.o.b.). (See Table XXVI of E.C.E. *Survey 1949*.)

Terms of trade: Obtained by dividing volume indices shown into indices of the value of exports and imports. The latter were found for O.E.E.C. countries from the O.E.E.C.'s *Foreign Trade Statistics Bulletin*, and for Total Europe from the O.E.E.C. Surveys.

tion also ruled out an expansion of imports from other members of O.E.E.C. For the latter were persistently in the debt of Belgium and Switzerland and, being inhibited by few obligations to pay

TABLE 2

British Post-war Financial Relationship with the Rest of O.E.E.C. (£ million)

	1946	*1947*	*1948*	*1949*	*1950*	*Total*
Sterling accruing to O.E.E.C. countries:						
1. In current transactions with U.K. . . .	−86	+7	−85	+8	−118	−274
2. In capital transactions with U.K. . . .	−38	+33	0	+48	−17	+26
Net accrual (+) or deficit (−)	−124	+40	−85	+56	−135	−248
Offset by receipts from U.K. under I.E.P.A. (+) .	—	—	+6	+46	+96	+148
Transferred to (−) or received from (+) countries outside U.K., O.E.E.C., and Dollar Area . . .	—	+105	+15	+26	−119	+27
Net surplus (+) to be disposed of, or deficit (−) to be financed . .	−124	+145	−64	+128	−158	−73
Disposal or financing:						
1. Sold to (+) or bought from (−) E.E.A. against own currency . .	−33	+4	−2	+16	−28	−43
2. Converted (+) into gold or dollars . . .	−94	+84	+48	+42	−7	+73
3. Lent to (+) or borrowed from (−) E.P.U.	—	—	—	—	−80	−80
4. Increase (+) or decrease (−) in sterling balances	+3	+57	−110	+70	−43	−23
	−124	+145	−64	+128	−158	−73

Source: *United Kingdom Balance of Payments 1946 to 1950* (No. 2), Cmd. 8201, Tables 3–9. Capital Transactions cover Section III of the Investment and Financing Account, with the addition of revaluation payments. 'Receipts from U.K. under I.E.P.A.' include the drawing down of the initial debit allotted to the United Kingdom in E.P.U.

gold to the United Kingdom[1] and in possession of sterling balances which could be run down, they preferred to run short of sterling rather than of Belgian or Swiss francs. There was thus a serious risk that sterling made available to these countries through liberal imports into the United Kingdom would find its way into Belgian and Swiss hands and become convertible into gold under the agree-

[1] Certain other western European countries had gold clauses in their agreements with the United Kingdom, namely, Portugal, the Netherlands, and West Germany. In the case of Portugal they were qualified by considerable holdings of sterling balances.

ments mentioned above. It is particularly relevant to this point to notice in Table 2 that the two years, 1947 and 1949, in which the United Kingdom made some return to her traditional deficit with western Europe, were the very years in which crisis overtook the British gold and dollar reserves. This is not a coincidence. For 1947 it is substantiated by official figures given by the Chancellor of the Exchequer.[1] The chief converter of sterling into gold and dollars in the year of convertibility was Belgium, which converted £18·3 million in the first six months of the year, and £34·4 million in the period from 1 July till the suspension of convertibility on 20 August. During these eight months Belgium's sterling balances fell by only £1·6 million, so that the conversion must have been made from currently accruing sterling, and undoubtedly this came not only from Belgium's own surplus with the United Kingdom[2] but also from sterling accepted by Belgium in the knowledge of its convertibility from the other western European countries with which it was in surplus.

In the light of these considerations there was more reason than immediately meets the eye in the United Kingdom's policy of restricting imports from west Europe below the pre-war level while meeting the resultant shortage of sterling with grants. If there had been an abundance of sterling in Europe it would have menaced the gold reserves either directly, if the United Kingdom came into deficit with Belgium, or indirectly owing to the possibility that it would be transferred by other countries into the coffers of the ultimate creditors and there become convertible. Transfers of sterling to each other among the members of O.E.E.C. have been quite considerable and amounted to £56 million in 1948 and £48 million in 1949.[3] An exact balance of sterling might have been aimed at. But the extra imports required to achieve such a nicety would, unless secured in a discriminatory way, have tended to come from the persistent creditors, since their export strength was at the back of their favourable position. It was a surer defence of the gold and dollar reserves to keep sterling scarce through a restrictive import policy and then to make grants of inconvertible sterling to provide *ad hoc* against the shortage becoming too severe.

[1] *The Economist*, 8 Nov. 1947, p. 772.

[2] During 1947 Belgium was actually in deficit with the United Kingdom in merchandise trade to the extent of $27 million. See E.C.E. *Survey of Europe in 1948*, Table XVI.

[3] *Bank of England Report* for year ended 28 Feb. 1950.

In this way a margin of safety could be preserved against sterling finding its way into corners where it might become convertible.

Another factor lay at the back of the United Kingdom's policy. There was a certain contrast between the balance of payments problem of the United Kingdom and that of Europe as a whole.[1] Table 3 takes the changes in the balance of payments of Europe and the United Kingdom between 1938 and the first two post-war years and shows how much of the deterioration is attributable, in relation to the total deterioration, to each of four factors. It is evident from the Table that the United Kingdom emerged from the war worse hit by the loss of investment income than was Europe as a whole, worse hit by the worsening of the terms of trade, and worse hit by the deterioration of her invisible trade. Consequently the burden of adjustment fell much more heavily for the United Kingdom upon what she could do with her visible trade.[2] Thus it appears that whereas Europe as a whole would have been nearer to solving the balance of payments problem if it could have regained the 1938 volume of export and import trade, the United Kingdom would have been immeasurably worse off—in fact her position would have doubly deteriorated in 1946—if she had not expanded the volume of her exports well above the 1938 level and held her imports well below. That the United Kingdom was forced to rely more heavily in her difficulties than the countries of Europe as a whole on forcing up exports and holding down imports would not necessarily have been incompatible with her returning to her pre-war trading relationship with Europe. Indeed, the surplus which these methods generated with the Continent of Europe was largely useless because it was inconvertible and had to be settled by grants and by drafts on sterling balances. But it was necessary not to transgress overmuch against the canons of non-discrimination, and this meant that a general policy of restricting imports must be applied to Europe as to everywhere else. It would not have been legitimate to increase imports from Europe while continuing to hold down imports from elsewhere[3] even though it

[1] Inclusive of all Europe, west and east, including the United Kingdom.

[2] In subsequent years, of course, the invisible balance has greatly improved.

[3] Recently O.E.E.C. countries have been lifting quantitative restrictions on imports from each other; in other words they have been discriminating against non-members. But this is in accordance with the doctrine, acceptable to the apostles of non-discrimination, that discrimination by a number of countries together is not discrimination, since it is a step towards a complete Customs

could have been argued that such a course might have contributed to the restoration of a multilateral pattern of trade.

TABLE 3

The Responsible Factors in the Balance of Payments Problem

Extent, by percentages, to which balance of payments problem would have been solved by:	*1946* For United Kingdom alone	*1946* For Europe as a whole	*1947* For United Kingdom alone	*1947* For Europe as a whole
1. Return to 1938 real volume of exports and imports . .	−109	14	−61	15
2. Return to 1938 terms of trade	45	38	72	49
3. Return to 1938 level of investment income . . .	55	15	28	13
4. Return to 1938 balance in other invisible items . .	109	33	61	23
	100	100	100	100

Sources: derived from tables 29 and 30 of E.C.E. *Survey of the Economic Situation and Prospects of Europe*, and from U.K. *Balance of Payments* White Paper.

Hitherto the defensive policy of the United Kingdom towards western Europe has been examined purely in the light of their bilateral relationship. Had the United Kingdom kept a tight rein on capital movements and severely blocked the sterling balances of western European countries she might perhaps have expanded her imports from western Europe to the level of her exports. As it was, the supply of sterling to Europe through trade was liable to be supplemented from these two sources,[1] and had therefore to be kept to a negative figure. But even an exact balance of the supply and demand of sterling in western Europe would have carried a risk to the British gold and dollar reserves, since it would probably have taken the form of a surplus of sterling in the hands of those countries, particularly Belgium and Switzerland, whose agreements with the United Kingdom permitted them to turn it into gold, and a deficit of sterling among those who had no obligation to settle it in gold. But the supply of sterling to Europe was not determined

Union. Thus, what Britain alone could not have done, she could do in concert with a number of others.

[1] See Table 2.

only by her bilateral relationship with the United Kingdom. Until 1950 there was an uninterrupted flow of sterling into western Europe from countries outside other than the United Kingdom.[1] This was made possible by the efforts of the British authorities to preserve and expand the multilateral use of sterling. This policy was not confined to payments within the Sterling Area. Indeed, in 1948 and 1949 the flow of sterling into western Europe, other than

TABLE 4[2]

£ million

Net transfers of sterling to O.E.E.C.	*1948*	*1949*
1. By countries outside Sterling Area . . .	40	52
2. By Sterling Area	−25	−26
Total sterling transferred to O.E.E.C. from outside	15	26

from transactions with the United Kingdom itself, came from outside the Sterling Area. This can be seen from Table 4.

This steady movement of sterling in multilateral fashion from outside the Sterling Area into western Europe can be traced to the nexus of payments agreements which gave sterling the status of a semi-convertible currency. No sooner had full convertibility of sterling come to a sudden end in August 1947 than the United Kingdom began to renegotiate her treaties with many countries on the basis that sterling arising in current transactions might be transferred to third countries agreed between the parties. Such transfers might be 'automatic' or 'administrative', the distinction being that the latter would require the prior consent of the Bank of England. These facilities were conceded by the United Kingdom to some countries which were members of O.E.E.C. and to some, mainly South American states, which were not. But in the event, as appears from Table 2, the movement has been towards O.E.E.C.; this has augmented the supply of sterling to western Europe and reinforced the need for caution in the United Kingdom's bilateral trading relations with that area.

It is against the backcloth described in the previous paragraphs that one must judge the British performance in the developing scene

[1] See Table 2.

[2] Total transfers from Table 2; transfers by countries outside the Sterling Area from *Bank of England Report* for year ended 28 Feb. 1950; transfers to Sterling Area by O.E.E.C. are the implied residual.

of western European co-operation on which the curtain was rung up by the beginning of Marshall Aid.[1] The participating countries responded to the American assistance by pledging themselves to seek a greater integration of their economies and much the most impressive progress towards that ill-defined objective has been embodied in the two Intra-European Payments Schemes and finally in the full flowering of the European Payments Union. The first Intra-European Payments Scheme, which began in October 1948, had a limited objective. For all of the participating countries Marshall Aid came to supply a deficit of real resources; they could not achieve the absolute level of production at that time needed to avoid economic, and possibly also political, dislocation and disaster. But for some their deficit of real resources was not so great as their deficit of dollars; their overall balance of trade was less adverse than their balance with the dollar area. These countries could therefore help to give relief to the shortage of real resources among their less fortunate fellow participants, but not in the form of dollars. The latter, however, were reduced to the position where they could not take advantage of this potential aid because they were unable to muster the resources to pay for it. The first Intra-European Payments Scheme attempted to meet this problem. Every participant received its transfusion of dollars, but the United Kingdom, Belgium, Sweden, Italy, Turkey, and the Anglo-American zone of Germany agreed to make grants, in that order of size, to the other participants. At the same time the Bank of

[1] It may be useful to summarize the main stages in this development as follows:

(1) 1945–7: The Period of Individual Struggle. In this period, the countries of western Europe settled their deficits with such means as they could each individually muster. These included aid from U.N.R.R.A. (terminated in the first half of 1947), American and Canadian loans to the United Kingdom, loans from the United States Export-Import Bank to France and other countries, loans from the International Bank to France, Denmark, Luxemburg, and the Netherlands, drawings on the International Monetary Fund, and liquidation of gold stocks and dollar assets.

(2) June 1947–50: The Period of Co-operative Recovery. At the beginning of this period came the O.E.E.C. Conference in Paris and the start of Marshall Aid. External aid was now centralized and divided up through O.E.E.C. and forms of assistance relied upon in the first period largely ceased.

(3) 1950 onwards: The Period of Liberalization. This period saw the first attempts to develop an economic system in western Europe which would continue independently of external aid. This was the object of E.P.U. and the liberalization of trade which went with it.

International Settlements was engaged to operate a clearing of Intra-European debts. Where *A* owed *B*, *B* owed *C*, and *C* owed *A*, it would carry out a 'first category compensation' cancelling the debts as far as possible.[1] Some shadow of things to come was cast by the provision for 'second category compensation'. This meant that if *C* had an accumulation of *A*'s currency, it might be transferred to *B* in settlement of *C*'s debt to *B*, even though *B* had no debt to *A* to complete the circle. But this required the consent of all parties concerned. Since the Payments Scheme at this time was dominated by one large debtor, France, the currency which most countries accumulated and would have liked to transfer in this way to other members, and in particular to the prime creditor, Belgium, was one of which those others already had an ample store which they were unwilling to increase, and one, indeed, which the debtor did not wish to see increase to a point at which it would have to be converted, under existing bilateral agreements or by sheer pressure from the creditor, into some more generally acceptable currency. Thus, while the scope for first category compensations was, for the same reasons, small, the scope for second category compensations was negligible.

It was when this agreement expired and a second was designed to take its place that the interests of the United Kingdom began to conflict with the ideas of some other European countries. Certain defects of the original scheme had become evident. In the first place the contributions and drawing rights of the participants were fixed bilaterally beforehand and were unalterable; this implied an unlikely infallibility in the estimates of prospective intra-European balances of payments on which they were based. If, during the course of the year, a recipient's position improved *vis-à-vis* one contributor and deteriorated *vis-à-vis* another, it lost a certain amount of aid; for while it did not need the whole of its drawing rights on the former, it could get no more from the latter.[2] Moreover, as recovery proceeded, the pertinent question ceased to be,

[1] This would be to the extent of the smallest bilateral debt outstanding. If *A*'s debt to *B* were £10 million, *B*'s to *C* £5 million, and *C*'s to *A* £7 million, the position after the first category compensation would be: *A* owes *B* £5 million, *B* owes *C* nothing, and *C* owes *A* £2 million. These debts would, of course, be expressed in different currencies; they are shown here in pounds for simplicity's sake.

[2] The first Intra-European payments scheme established contributions and drawing right of $818 million for nine months. In the first eight months of its life only $557 million had been used. See *The Economist*, 2 July 1949, p. 32.

'Which country can supply my needs?', and became instead 'Which country can supply my needs most cheaply?' But with drawing rights fixed and non-transferable, countries were encouraged to use them without consideration of prices asked by the contributor, and the contributor was thereby protected from the competition of fellow participants. Again, there was no incentive for recipients to improve their position; all that self-interest urged was not to allow it to get worse. All these defects caused it to be demanded that the drawing rights fixed for each recipient and each contributor should be transferable. While this would not have met the last-mentioned defect of the original scheme, that it failed to penalize the debtors and prod them into equilibrium, it would force the contributors to compete with each other by enabling the recipients to use their drawing rights where the needed goods could be most cheaply obtained.[1] With one eye on the ebbing gold and dollar reserves in the summer months of 1949, the British negotiators were emphatic in their opposition to the proposal. The compromise which was finally reached provided that 25 per cent. only of the drawing rights established by the new agreement should be transferable, and furthermore that the amount of transferred drawing rights which Belgium could accept should be limited to $40 million.[2]

The skirmish over this amended version of the original Intra-European Payments Scheme was a prelude to the greater struggle of the following year, the outcome of which was the establishment of the European Payments Union. The scheme which was finally adopted in 1949 retained what many considered to be the greatest defect of its predecessor in that it offered no incentive to debtor countries to improve their balance of payments position with other members. It is true that the limited transferability of drawing rights might make it profitable for a debtor to improve its position against some particular contributor; for then it might be able to transfer its drawing rights on that contributor and use them up where better, cheaper, or more suitable supplies could be obtained.

[1] Moreover, if a recipient were to transfer its drawing rights from one contributor to another, the former would lose the 'conditional' dollars with which E.C.A., continuing the practice of the previous scheme, matched each dollar's worth of contribution made.

[2] Belgium's prospective surplus with other participants was put at $400 million, and she undertook to prevent it rising above $440 million. For details of the special Belgian position see *The Economist*, 9 July 1949, p. 93.

But it had no advantage in improving its position as against the other members as a whole. While it was desirable in itself to rectify this defect, changing economic conditions were making it more possible to do so. The emphasis on sheer quantitative production, which had marked the early stages of the Marshall Plan, was slackening. The overcoming of desperate shortages was turning attention towards the need to encourage the sources of efficient production and penalize the inefficient. Previously it would have been unreasonable to penalize debtors and reward creditors whose circumstances arose largely from factors attributable to the aftermath of war. But now most countries had reached a stage in recovery when they could reasonably be expected to bear the penalties of a deficit and overcome them. Thus it was mooted by governments ideologically inclined towards the automatic and self-regulating processes of international trade that the countries of O.E.E.C. should move farther towards full inter-convertibility of European currencies and accept the necessity of paying and receiving gold in settlement of their accounts with each other.

The logic of these arguments, considered *in vacuo*, was undeniable. But in the British view they did not show off to such advantage when placed against the practical background of the world dollar shortage. When it had been proposed in 1949 that the drawing rights established under the second intra-European Payments Scheme should be made transferable, Britain had objected that this might mean sterling being transferred to Belgium and certain other countries[1] who would demand that it should be converted into gold under their bilateral payments agreements with the United Kingdom. In so far as this happened the United Kingdom would in effect be making dollar grants to the rest of the O.E.E.C. Under the proposed European Payments Union the position would be slightly different. Since the Union was envisaged as a permanent institution designed to outlive the period of Marshall Aid it was decided not to base it like the two earlier schemes upon the provision of drawing rights and contributions; for these depended upon the contributors receiving 'conditional' dollars from the European Co-operation Administration (E.C.A.) against grants of their own currency made to fellow participants.

[1] The Netherlands, Portugal, Switzerland, and Western Germany had agreements with the United Kingdom ensuring gold payments for national currency accumulated over certain limits.

The new scheme proposed that any member's currency could be used for payments between members; in other words the currencies of the members would be inter-convertible. In this way each could offset bilateral surpluses against bilateral deficits, and only the net position of each as against the others would come up for settlement. Here came in the possibility of gold settlements, although it was never suggested that there should be full settlement in gold without some extension of credit to the debtors.

If a surplus of sterling arose in the Union because the United Kingdom was unable to compete with the other members, then she would accept the implications and submit to the penalties of gold movements. But as we have seen, the supply of sterling to the countries of western Europe did not depend entirely upon their trading account with the United Kingdom. For there were countries outside western Europe who could and did transfer their surplus sterling there; and this had been a steady flow since 1946 amounting to £146 million during the three years 1947, 1948, and 1949.[1] Some of this inflow no doubt found its way into Belgian hands or elsewhere where it gave rise to claims for gold; and in so far as this was so the E.P.U. proposals brought no added threat. But this quantity was probably not large, since the British authorities planned the channels of automatic transferability, and gave their assent to administrative transferability, in such a way as to prevent accretions of sterling where it was in danger of being turned to gold. It was inevitable, therefore, that the introduction of gold settlements throughout E.P.U.[2] would force on the United Kingdom a far greater caution in allowing sterling to be transferred to western Europe from outside. In terms of ultimate ideals, a useful seed of multilateralism, to the cultivation of which all countries had professed themselves devoted, would have been stifled. In terms of immediate British interests, the willingness of countries outside O.E.E.C. to conduct trade in sterling and to hold sterling balances depended in part upon how widely it could be used,[3] and if the area had to be restricted, British bargaining power would suffer.

While these difficulties would attend entry of the United King-

[1] See Table 2.

[2] i.e. in an area considerably wider than Belgium, Switzerland, Portugal, Western Germany, and Holland.

[3] A currency which can be used anywhere, like gold or dollars, is universally acceptable.

dom into a system involving settlements in gold, another problem weighed heavily in the minds of the British negotiators. This concerned the sterling balances held by prospective members of E.P.U., which amounted to £393 million at 30 June 1950 (when the scheme was due to begin), offset by British holdings of £41 million in O.E.E.C. currencies.[1] If these were to be cleared through the E.P.U. mechanism a serious strain might be placed on Britain's resources which could hamstring the scheme at the outset. This was no new problem as far as those balances were concerned which were held by the five countries with whom the United Kingdom already settled her debts in gold. Nor was the problem as large as the balances themselves, since their holders were bound to require to keep a working balance. But there were countries with sizeable accumulations of sterling, notably Italy with an estimated £65 million,[2] which they had previously held without demanding gold and might now throw into the clearing. This problem was solved without much difficulty. The United Kingdom finally agreed to allow accumulations of sterling to be used, in the same way as sterling arising from current transactions, for payments anywhere in the Union, and in return would be indemnified by the E.C.A. for any losses of gold which might result from that cause.

But this was a special problem. The other remained; how could the United Kingdom accept the possibility of gold losses if sterling from outside the Sterling Area entered the E.P.U. mechanism, without restricting its freedom to do so? Much ingenuity was exercised upon this question. But then, quite suddenly, the United Kingdom capitulated. She agreed to become a full member of the Union, accepting all its obligations in regard to gold settlements without qualification.[3] The reasons for this somersault are still locked in the files of the Treasury and the Bank of England. But without a doubt they reflect the improvement in the gold and dollar position of the United Kingdom which followed the devalua-

[1] Cmd. 8201, Table 16.

[2] *The Economist*, 15 July 1950, p. 131.

[3] There was written into the E.P.U. agreement a clause establishing a 'sterling option', whereby members could choose to hold credit balances with the Union either in sterling or in E.P.U. units of account. When this was originally proposed it was thought to embody the necessary concession to the difficulties of the United Kingdom outlined above. But this turned out to be untrue; it conceded nothing. See: J. R. Sargent, 'E.P.U. and the future of sterling policy', *Bulletin of Oxford University Institute of Statistics*, Nov. 1950.

tion of September 1949 and was becoming apparent as the negotiations came towards their close in July 1950. Indeed, it bears witness to official optimism of that time that the United Kingdom not only accepted the full obligations of membership but also undertook an initial debit position, equivalent to $150 million, to the extent of which she would give credit to the Union before the normal mechanism of settlement came into play.[1] But perhaps also it was realized that to accept the obligations of E.P.U. in full would not be so bad a bargain. Under the agreed arrangements the United Kingdom[2] received a quota of 1,060 units of account,[3] or £379 million. Any debit she might incur with the Union up to £76 million or 20 per cent. of her quota, would not involve gold payments at all, but be carried as a credit granted by the Union.[4] The length of this breathing space may be compared with that which she could claim under her existing payments agreements. The five countries with whom she had agreements embodying a gold clause were prepared to hold up to £39·5 million[5] before invoking its operation. Other countries, Italy, Norway, and Sweden, would hold sterling without limit; but their readiness to do so could not be too sorely tried without evoking requests for convertibility. With the rest of O.E.E.C. the question of accumulating sterling had not arisen. In entering E.P.U., therefore, the United Kingdom was exchanging a breathing space of £76 million before gold payments began for one of £39·5 million plus an unspecified, but for practical purposes, not unlimited, amount. Nor was this all; for whereas any sterling accumulating in excess of £39·5 million under the previous arrangements had been entirely convertible into gold, this would not be the case under E.P.U. For once the point had been reached at which gold payments began, namely when 20 per cent. of the quota was exhausted, only half of the remaining 80 per cent. was payable

[1] Initial debit positions were also assigned to Belgium and Sweden, and initial credit positions to Austria, Greece, Iceland, Turkey, and the Netherlands. These were the equivalent of the contributions and drawing rights of the two earlier Intra-European Payments Schemes, and carried for the contributors the equivalent amount of conditional dollars in Marshall Aid.

[2] Strictly speaking the whole Sterling Area (excluding Iceland), since Britain agreed to clear debts between O.E.E.C. and the overseas sterling countries through the E.P.U. mechanism.

[3] The unit of account was to be the equivalent of the U.S. dollar.

[4] This applied generally; as quotas were gradually used up, gold payments were to become progressively heavier. For the mechanics of the settlement procedure see *The Economist*, 15 July 1950, p. 130.

[5] Apart from sterling held to repay previous debts.

in gold. Full gold settlement awaited the full exhaustion of the quota.[1] Evidently this was not too bad a substitute for the previous arrangements. This consolation, however, was not needed during the first year of the operation of E.P.U. From the very beginning the United Kingdom, together with the rest of the Sterling Area, accumulated a large surplus which soon carried her to the point where gold settlements began, and by the end of June 1951 she had acquired $80 million of gold.[2] But already her favourable position was beginning to reverse itself, and by the end of August 1951 all the gold acquired had been lost.

The necessary complement of E.P.U. has been the movement towards the liberalization of trade between members of O.E.E.C. This began at the end of 1949 and took the form of an attack on import quotas in trade other than that conducted by governments. The objective agreed by O.E.E.C. was that 60 per cent. of all imports by members from each other on private account should be freed from quantitative restrictions by September 1950, and it was further decided that members could complain if it was found that the aims of this policy were being thwarted by excessive tariffs maintained against their exports. The establishment of E.P.U. gave a fillip to this movement and the objective was raised to 75 per cent.[3] It was inevitable that it should be so. Any payments agreement can, within limits, be made to function smoothly if its participants are strict enough in their control of the trading operations for which payments must be made; and E.P.U., which freed the payments, would have been nugatory if it had not also sought to free the transactions. Moreover, one of the lines along which the members of O.E.E.C. hoped to solve their collective balance of payments problem was to substitute production among themselves for some part of their imports from overseas. But once they had entered into a compact which involved, in the last resort, the settlement of their mutual deficits in gold, they might become less willing to increase their dependence on imports from each other. To counteract this possible tendency, the introduction of E.P.U. had necessarily to be accompanied by a reinforced attack upon

[1] The E.P.U. agreement did not specify whether a creditor exceeding its quota should receive full payment in gold; but it required full gold payment by debtors exceeding their quotas.

[2] Actually the 'gold' settlements were satisfied by the transfer of U.S. dollars. See *First Report of European Payments Union*, published by O.E.E.C.

[3] See E.C.E. *Survey of Europe in 1950*, p. 108.

their restrictions on imports from each other. This greater freedom of trade must be applauded by the economist no less than by those who enjoy its fruits. But it is not without its dangers to the solution of Europe's long-term problem, which remains its shortage of dollars. The birth of E.P.U. and the increased freedom of trade among its members is a considerable achievement in itself; but it is not by that alone that it must be judged. The proper criterion of its success will be first, how far, through stimulating its members to compete with each other, it increases the efficiency of their industries and lowers the prices which they can offer in markets overseas and particularly in the dollar area; and, secondly, how far, through sweeping away quantitative restrictions, it encourages the production of those industries which can displace in the home market goods at present imported from overseas. There is no guarantee that liberalization of trade and payments will in itself encourage the supply of just this type of good. It may be that the green light will be given to an increased output of goods of a luxury or semi-luxury nature which will simply add to consumption without effecting a corresponding reduction in imports.[1] This would surely be a misdirection of resources. Nor would it end there. For those countries which found themselves importing more of this type of product, in deference to their pledge of liberalization, would be forced by the fear of becoming involved in gold settlements through E.P.U. rapidly to divert some part of their export capacity to compensate. In terms of ultimate ideals, no less of material self-interest, it would be admirable to see a free flow into the United Kingdom of the many desirable things at which the British tourist goggles on the Continent. To see British exports diverted to paying for them would be disastrous. In normal times it is distasteful to designate one type of good more useful than another; it is only for the consumer to judge. But in the context of Europe's overriding problem, which is the dollar shortage, it is impossible to avoid the conclusion that some goods are 'useful' and others are not. They are useful, or not, in solving that problem. The movement towards greater freedom in the trade and payments of western European countries has begun with an act of

[1] It is only fair to mention that this type of production would not be entirely useless, since it would mop up excess purchasing power at home and combat inflationary tendencies which might otherwise worsen the balance of payments. But one could not expect visiting Congressmen to appreciate that.

faith; that by freeing production and trade, it will encourage production and trade, and by encouraging production and trade will bring forth useful production and trade. This faith, like that of Marxists in their interpretation of history, must be backed up by suitable action to make certain that it is justified.

CHAPTER XXIV

BRITAIN AND THE STERLING AREA

By J. R. SARGENT

CURRENCY areas, of which the Sterling Area is the largest, are an outgrowth of inconvertibility. Their existence rests upon two principles of discrimination. First, it is easier to transfer the currency concerned among those countries which belong to the Area than it is to transfer it from these to those which do not. Thus anyone holding sterling, whether a national of a Sterling Area member or not, will find that he is freer to use it to settle a debt to an Australian than to a Frenchman. Secondly, the right to transfer the currency outside the Area, or the right of convertibility,[1] is conceded more readily to members than to non-members of the Area. Thus sterling held by an Australian can more easily be exchanged for dollars than sterling held by a Frenchman. These arrangements embody a large measure of discrimination. When those who hold a currency can transfer it anywhere in the world with equal facility, and when this facility is equal for all, there can be only one currency area, and that world-wide. As long as the pound sterling was a fully convertible currency, therefore, there was no Sterling Area. The pound could be converted as freely into French francs as it could into Australian pounds, and this freedom was the same for Frenchmen and Australians, for Americans and Japanese, for anyone in the world. There was no advantage and no purpose in an exclusive sterling club. There were a number of countries who maintained substantial reserves in sterling, but this was a choice

[1] 'Transferability' and 'convertibility' are the obverse of each other. When an Englishman wishes to make a payment to a Frenchman, he can either buy francs and give them to the Frenchman, or give the Frenchman sterling and leave him to convert it into francs if he will. The only difference is that the former method involves an immediate loss of foreign exchange; the latter may postpone it if, for example, the French are prepared to hold sterling without converting it up to certain limits. But when conditions are unfavourable as far as the Sterling Area is concerned for the convertibility of sterling, as when there is too much sterling in the hands of non-sterling countries, then are they also unfavourable for transferability; for sterling in the hands of non-sterling countries will be touching the limits.

determined by convenience—by the importance of London as a centre for the financing of trade and for borrowing for other purposes, by the operation of the Gold Exchange Standard,[1] by the prestige of sterling as a stable store of wealth, and, in the period 1925–31, by the high rates of interest obtainable—and not by their access to any privileges denied to others.

When the pound sterling ceased, in 1931, to be convertible into gold, there followed a period of currency confusion. But by the beginning of 1933 there had come into existence a group of countries which came to be known as 'the Sterling Bloc'.[2] These countries were the British Dominions (with the exception of Canada), the British Colonies, Egypt, Denmark, Norway, Sweden, Finland, Estonia, Portugal, and Siam, and all of these kept the rate of exchange of their own currencies on sterling constant.[3] Certain other currencies adhered to this bloc and to the stable relationship with sterling temporarily or with qualifications.[4] But at no time was the Sterling Bloc an organization like the Sterling Area today. The pound sterling could still be converted into any other currency as freely by countries adhering to the Sterling Bloc as by those outside it. It is true that it could no longer be converted into gold at a fixed rate,[5] and that its conversion into other currencies was therefore attended by the possibility of fluctuations in the rate of exchange. To this extent the countries of the Sterling Bloc enjoyed an advantage; their mutual trade could be carried on at

[1] The Gold Exchange Standard was a variant of the Gold Standard, under which the countries working it made their currencies convertible, not directly into gold, but into some other currency which was itself convertible into gold.

[2] Some writers use the term 'Sterling Area' to describe what I have labelled the 'Sterling Bloc'. I believe, however, that two distinct terms are required to separate two distinct concepts; the one to describe an association which conferred a convenience but no special privileges on its members (the Sterling Bloc), the other to reflect the fact that members enjoyed more favourable treatment than those outside (the Sterling Area).

[3] At this time sterling was itself fluctuating in terms of all other currencies and of gold.

[4] The rate of exchange on sterling was kept fixed by Japan from 1935, and by Greece, Latvia, and Yugoslavia from 1936, but in all these cases exchange control was also maintained. In May 1938 the French Exchange Stabilization Fund was instructed not to allow the franc to fall below 179 to the £. Argentina and Bolivia maintained a loose attachment to sterling, complicated by their multiple exchange practices.

[5] It could, of course, still be converted into gold through any gold market, but not at the fixed rate which the Bank of England was forced to maintain under the legislation which established the Gold Standard.

rates of exchange which were fixed *de facto*. But the area over which the pound sterling could freely be transferred was still world-wide; it was not coterminous with the Sterling Bloc.

At the beginning of the war in 1939 the countries not involved severed their connexion with the Sterling Bloc. At the same time the Sterling Area came formally into existence as the group of countries exempted from the British Exchange Control. Since that time it has changed little,[1] and today consists of the British Colonies, South Africa, Australia, New Zealand, India, Pakistan, and Ceylon, together with certain countries outside the British Commonwealth, Burma, Iraq, Jordan, Iceland, and the Irish Republic. It was the introduction of exchange control that provided the condition for the development of the Sterling Area as an exclusive club whose members regarded each other as different from outsiders. The privileged position of the Sterling Area is best appreciated by observing its status in the hierarchy of British Exchange Control. For the purposes of this control the world is divided into five areas, each having different rights in the disposal of their sterling.

1. *The Sterling Area.*

Sterling in the possession of residents of the Sterling Area can be freely transferred for capital purposes within the Area, and for current purposes to any country in the world through drawings on the Dollar Pool.[2]

2. *The American Account Area.*

Sterling balances held by residents of the area can be freely converted into dollars and therefore into any other currency. Sterling in the form of securities, however, cannot be liquidated and converted into dollars;[3] it can only be used for reinvestment into other sterling securities.

[1] Egypt left the Sterling Area in July 1947. In February 1948, Palestine (as it then was) ceased to be a member; subsequently Jordan was readmitted, Israel remaining outside.

[2] Since sterling possessed by Sterling Area residents is fully convertible for current purposes into dollars, it is *ipso facto* convertible into any other currency. This freedom is subject to qualifications which are discussed below.

[3] Except in the case of repayment.

3. *The Transferable Accounts Area.*

Sterling balances held by residents of this Area can be transferred only to other members of the area[1] in respect of direct current transactions, and to members of the Sterling Area.[2] They can also be transferred to members of the residual group. The transfer of sterling securities is restricted for members of this Area as for holders of American Accounts.

4. *The Bilateral Accounts Area.*

Members of this Area cannot transfer their sterling balances to each other, but only to the Sterling Area or to other accounts of the same monetary area.

5. *The Residual Group.*

The countries in this group are restricted in the same way as regards their payments of sterling as the Bilateral Accounts Area; they differ from the latter only in that they are included in the countries to which payments of sterling can be made by members of the Transferable Accounts Area.[3]

The hierarchy thus described is not rigid. For example, countries within the Bilateral Area or the Residual Group are often allowed by administrative action of the Bank of England to make transfers of sterling to other countries of the same or other areas.[4] Sometimes they also enjoy rights of convertibility into dollars if they accumulate sterling beyond certain limits. To this extent the boundaries between each category are blurred; but the basic architecture of the system shows itself clearly enough. It can be represented more clearly with the aid of a Table:

[1] But not all accounts of residents of this Area are 'transferable accounts'; 'other accounts' of members of the Area cannot be transferred except to other accounts of the same monetary area.

[2] The qualification *direct* current transactions is designed to prevent such operations as the use of transferable sterling by, for example, Dutch merchants to buy Australian wool, not for importation into Holland, but for resale to the United States. The dollars thus obtained would elude the Dollar Pool and generate a profit for the Dutch merchant, when sold on free exchange markets where dollars were at a premium on the official pound-dollar parity.

[3] The countries belonging to each area will be found listed in the *Second Annual Report on Exchange Restrictions*, published by the International Monetary Fund. The grouping is amended from time to time, and changes are shown in the *Annual Report of the Bank of England*, as well as in the current news.

[4] Details of the amounts allowed are provided annually in the *Report of the Bank of England.*

TABLE I

The Sterling Exchange Control System

Sterling held by residents of:	*Freely transferable within area shown*		*Freely transferable to outside area shown*	
	For current transactions	*For capital transactions*	*For current transactions*	*For capital transactions*
American Account Area . . .	Yes	*	Yes	*
Sterling Area. .	Yes	Yes	Yes	No
Transferable Accounts Area† .	Yes	No	No‡	No
Bilateral Area and Residual Group .	No	No	No§	No

* Sterling Balances only; sterling held in the form of securities can be transferred outside sterling area only in the event of repayment.

† Sterling in transferable accounts only

‡ Except for payments to Residual Group and Sterling Area.

§ Except for payments to Sterling Area.

Enough has now been said to illustrate the privileged position of the Sterling Area in the British Exchange Control System. Hitherto, however, we have presented a somewhat idealized picture. We have claimed, on the one hand, that sterling can be freely transferred for current and capital purposes within the Sterling Area, and, on the other hand, can be freely transferred for current purposes anywhere outside the Sterling Area. To both parts of the claim we must add several qualifications. On the freedom of payments within the Sterling Area, the first limitation is imposed by the existence of import licensing, and of government trading. Freedom to make a payment, in other words, does not involve freedom to make a purchase. The tendency has been, however, towards a greater freedom for imports into the United Kingdom from other members of the Sterling Area than from most countries outside. Import licences have been required for all imports from some countries and for some imports from all other countries. The Sterling Area falls into the latter category from which a certain range of imports is freely permitted. This relative freedom of trade was not, however, an advantage confined to the Sterling Area. It was shared, until recently, by all the members of O.E.E.C., and by a number of other countries, including Egypt, Israel, Spain, Brazil, and some other South American States. But the fact that it has been relatively easy to import from the Sterling Area is

reflected in the growth in the proportion of the imports of the United Kingdom which is derived from Sterling Area sources, and the proportion of United Kingdom exports absorbed by countries of the Sterling Area.

TABLE 2

Sterling Area Share of U.K. Imports and Exports

	1936–8 average	*1946*	*1947*	*1948*	*1949*	*1950*
Imports . .	32·0	33·5	32·2	37·5	38·4	38·9
Exports . .	41·4	45·6	48·8	48·4	50·8	46·4

Source: *Trade and Navigation Accounts of the U.K.*
Exports are measured f.o.b., imports c.i.f.

The second qualification we must make relates to the freedom to make capital transfers to any part of the Sterling Area. Australia and New Zealand gave their governments power during the 1930's to control capital movements to all countries including other members of what is now the Sterling Area. These regulations have never been abolished. In the first few months of 1948 and the latter half of 1950 the flow of 'hot money' into Australia from other parts of the Sterling Area caught the attention of the authorities, who sought to deter it by pointing out that they had power to prevent its repatriation. Nothing, however, has been done, and the Australian and New Zealand controls are more a theoretical than a practical qualification of the freedom of capital movements within the Sterling Area. South Africa, however, has gone further in this respect. In March 1948, alarmed by the influx of short-term capital from the United Kingdom, the South African authorities instructed the banks to sell South African currency for sterling, other than for current transactions, only for 'approved purposes'. The purposes approved included the conversion of sterling arising out of South African issues on the London capital market, the remittance of the proceeds of liquidated sterling assets, and the sale of South African currency to residents in the Sterling Area for the purpose of buying securities in South Africa. The latter provision left the door wide open; United Kingdom residents could obtain South African currency freely to buy South African securities, which they could then liquidate at will. A certain risk would be incurred in comparison with the direct transfer of liquid funds,

but one of insufficient weight to discourage it effectively. In July 1948, therefore, the regulations were amended. All securities bought by residents of the Sterling Area outside South Africa had now to be lodged with an authorized dealer. If they were sold, the proceeds had either to be repatriated or reinvested within twenty days. These new provisions were never severely tested, since the advent of the Nationalist Government checked the influx of capital; but they still stand. More recently Ceylon agreed to exchange information with the United Kingdom about capital movements; but no more than this has been done. There is, however, enough evidence to show that although the freedom of capital movements within the Sterling Area is not seriously qualified, it is not accepted without question.

The third qualification that must be made relates to the fact that not all of the sterling owned by members of the Sterling Area is freely available for use at all, even within the Area itself. At the end of 1949 the sterling balances of members of the Sterling Area amounted to £2,352 million, of which it is estimated that about £930 million, belonging to India, Pakistan, Ceylon, and Iraq, was blocked.[1] The sterling held in these blocked accounts is released from time to time in amounts agreed *ad hoc*, and only then does it become freely available for spending. There is, however, no restriction on the interest which is paid. The Colombo Plan for the economic development of south-east Asia envisages the final removal of this limitation on the free use of sterling in the ownership of Sterling Area countries. Between July 1951 and June 1957 it proposes that the balances of India, Pakistan, and Ceylon shall be run down by £246 million to assist the development programmes of these countries, and expects that this will carry them down to the level which the latter will require to safeguard their external position and to back their currencies. If this expectation is fulfilled, 1957 will see the end of all restrictions on the availability of sterling in the ownership of members of the Sterling Area[2] except such as

[1] The figure of £2,352 million is taken from Cmd. 8379 (*Balance of Payments of the United Kingdom 1948–51*), Table 15. The estimate of £930 million for the blocked balances of Sterling Area countries is made in the *Banker*, May 1950, in an article entitled 'Who Holds the Sterling Balances?' The £930 million represents those balances fully blocked; the countries concerned have also certain amounts available, not for spending, but for use as a working balance.

[2] That is to say, with the exception of the Iraqi sterling balances: Iraq is not included in the Colombo Plan. Moreover, restrictions may still remain on the

may still be imposed by the import licensing and control of capital movements previously mentioned.

There are, then, three limitations on the free transferability of sterling within the Sterling Area. First, there is the existence of import licensing for some products.[1] Secondly, there are provisions for control of capital movements to other Sterling Area countries in existence in South Africa, Australia, and New Zealand. Thirdly, certain of the sterling held by certain members of the Sterling Area is blocked and only part of it made freely available from time to time. The first and third of these qualifications also apply to the convertibility of sterling owned by Sterling Area members, to their freedom to transfer sterling not only within the area but where they will outside it. This convertibility functions through the Sterling Area Dollar Pool which originated during the war as one instrument of a common war effort; all hard currencies earned by members of the Sterling Area were surrendered to the Pool and allocated according to the requirements of the war situation. Since the war the practice has continued of selling hard currency earnings to the Dollar Pool in return for sterling.[2] As a corollary members can draw freely on the pool for their hard currency requirements. But they are free to draw only in the sense that if, for example, Australia grants an import licence for the purchase of goods in the United States, the dollars are provided without question from the Dollar Pool.[3] Sterling, in other words, is fully convertible through the medium of the Dollar Pool for licensed purposes, and times of crisis for the Dollar Reserves of the Sterling Area are marked by meetings of the members, as in 1947 after the convertibility crisis and in 1949 just before devaluation, at which it was agreed to apply the licensing systems of each country more strictly.

For India, Pakistan, Ceylon, and Iraq this convertibility is further limited by the fact that some of their sterling holdings are blocked. Immediately after the war, however, for all these countries

availability of sterling balances of non-Sterling Area countries. These amounted to £1,065 million at the end of 1949, of which approximately £400 million was fully blocked.

[1] It should be added that all invisible payments from the U.K. to the rest of the Sterling Area are free.

[2] With an exception, which will be discussed below, in the case of South Africa.

[3] The Dollar Pool is managed by the Exchange Equalization Account.

except Ceylon,[1] sterling was not convertible at all, even to the extent of their freely available balances and their import licences. Instead they received negotiated allocations of hard currency and did not enjoy the right to draw freely on the Dollar Pool. But when the financial agreement was signed with India in the summer of 1949 it referred only to the releases which had been agreed from India's blocked balances and made no mention of any hard currency allocation. It soon became evident from statements of the Indian Minister of Finance that this meant that India had returned to full membership of the Sterling Area with the right to draw freely on the Dollar Pool, unconfined by any predetermined allocation. This freedom was also restored to Pakistan, again by implication rather than an explicit concession, in an agreement signed shortly afterwards; and it was extended to Iraq in February 1951. Now, therefore, for all members of the Dollar Pool sterling is fully convertible within the limits imposed by import licensing and the immobilization of certain balances. Thus somewhat tardily is fulfilled the clause in the Anglo-American Loan Agreement, under which Britain agreed to see to it that 'any discrimination arising out of the Sterling Area Dollar Pool will be entirely eliminated, and each member of the Sterling Area have its current sterling and dollar receipts at its free disposition for current transactions anywhere'.

The practice of selling hard currencies to the Dollar Pool against sterling is naturally complementary to the right to draw freely on it. Recently, however, two members of the Sterling Area—Pakistan and Ceylon—have been conceded the right to retain certain small amounts[2] of gold and dollars that they have earned to constitute a reserve for their newly founded central banks. Some have seen in this a departure from the customary practice of Sterling Area members in selling their hard currencies against sterling. But Australia, New Zealand, and India have certain gold holdings of their own in their central banks and not all of the liabilities of the latter are backed by sterling assets. These gold holdings are not part of the Dollar Pool and it is entirely reasonable that new central banks in Ceylon and Pakistan should want to be similarly equipped, especially in countries where precious metal is so highly regarded.

Something must now be said of the special position of South

[1] Ceylon has always been a net dollar earner.

[2] £4 million each.

Africa. South Africa is still formally a member of the Sterling Area.[1] In practice we have seen how she maintains control on the movement of capital to and from other members of the Sterling Area, revealing a qualified acceptance of the principle of free transferability of sterling between members. In the Dollar Pool, however, she no longer participates at all. Her withdrawal dates from December 1947. Prior to that date she had agreed to sell a minimum of £70 million of gold each year to the Pool and in return received the right to draw freely on it for such non-sterling currency as she required. This agreement broke down for two reasons. On the one hand, South African sales of gold to the Dollar Pool only reached the minimum while her purchases of non-sterling currencies exceeded it by £9 million in 1946 and £42 million in 1947. On the other hand, her adverse balance of payments with the United Kingdom was covered by a considerable movement of capital from London; and this reduced the necessity for her to acquire sterling by selling gold to the Dollar Pool. From both ends, therefore, South Africa had become a drain on the Pool, instead of, as had been hoped, a contributor. The result was that in December 1947 South Africa withdrew from the Dollar Pool. It was arranged that she should look after her own hard currency requirements and not find them from the Dollar Pool. She still might use the Pool as an agent, but was to reimburse any hard currencies she might buy from it. As a corollary, she ceased to contribute to it any gold; but at the same time made a gold loan to the United Kingdom of £80 million. The loan was to run for three years and could be repaid in sterling on demand. During 1948 the flow of capital from London to South Africa ceased, and the Union became short of sterling. Consequently the loan was repaid in sterling and earlier than the three years for which it was to run.

Thus the position of South Africa had radically changed. In the year before her withdrawal from the Dollar Pool she had been flush with sterling, owing to the capital movement, and this had kept her sales of gold to the Dollar Pool low. Now she was short of sterling, and to obtain what she needed she had been forced to call for repayment in sterling of a loan made in gold. In effect this amounted to selling gold to acquire sterling. The reason for

[1] That is to say, she is listed among the 'Scheduled Territories' in Schedule I to the Exchange Control Act.

this reversal of her position was the cessation of the capital influx during 1948, and this in turn was partly due to the coming to power of the Government of Dr. Malan. Other factors, however, contributed. The South African restrictions on the import of capital, introduced in March 1948, have already been described. But they were supported by an unwillingness of the British authorities to allow South Africa to raise money on the London capital market.

The changed position of South Africa since the end of the war plainly called in question her membership of the Sterling Area. She was no longer able to be a net contributor to the Dollar Pool; and this was recognized by her withdrawal in 1947. Formally this meant that her gold output no longer came automatically to London to be sold against sterling and to buttress the reserves of the Dollar Pool. The logic of this was that she must be kept short of sterling in order to force her to buy it with gold. In other words, it was now necessary to qualify the freedom with which the principles of the Sterling Area allowed sterling capital to move to South Africa from other members. Early in 1950 a new agreement placed financial relations between the United Kingdom and South Africa on the footing on which they now stand. Licences for imports into South Africa were to be of two kinds. For 'essential' imports, licences would be issued which would permit buying from anywhere in the world, and payment would be made in gold. For 'inessential' imports, on the other hand, payment could be made only in sterling or soft currencies. This arrangement meant that the Dollar Pool could get gold from South Africa in two ways. On the one hand, where South African importers decided to use their 'essential' import licences for purchases within the Sterling Area, the necessary sterling would be purchased against sales of gold to the Dollar Pool. On the other hand, when 'essential' licences were used for purchases in soft currency countries the necessary currency would likewise be purchased against sales of gold to the Dollar Pool. To this extent the Dollar Pool would gain gold; in so far as 'essential' licences were used for purchases in hard currency areas, the Pool would gain gold but lose an equivalent amount of hard currency.

This agreement has done something in practice and something in principle to restore reality to South African membership of the Sterling Area. In practice, it is suspected that the list of 'essential'

imports is so drawn up as to favour the products which the Sterling Area can supply. It was arranged that progress sales of gold were to be made to the Dollar Pool to the extent of 25 per cent. of the current output of South Africa, and this reflects the expectation that the Sterling Area and other soft currency suppliers will capture a substantial proportion of the 'essential' licences issued. It could also reflect a determination to see that they do. In principle the agreement upholds the separation of South Africa from the Dollar Pool and therefore from full participation in the working of the Sterling Area. But it removes the necessity, which loomed large in 1948, for restricting the freedom with which sterling capital can be transferred to South Africa from elsewhere in the Sterling Area. Gold is now to be contributed to the Dollar Pool against all 'essential' licences captured by the Sterling Area and soft currency suppliers, and this arrangement stands regardless of the amount of sterling South Africa may receive through capital movements. Consequently, from the point of view of the rest of the Sterling Area, there is no longer a need to exercise any restriction on the latter; and full freedom could be restored to capital transfers according to the principles of the Sterling Area. But the restrictions which exist are imposed at the South African end, where the danger is now of an outflow rather than an influx of capital. From the South African viewpoint, therefore, the time is not ripe for their removal. Consequently South Africa remains formally a member of the Sterling Area, but in a heavily qualified sense; for she does not participate in the Dollar Pool and she does not maintain freedom of capital transactions with other members of the Sterling Area.

So much for the formal structure of the Sterling Area. The content of the framework described above is illustrated in Tables 3 and 4. It is plain from the figures assembled that the United Kingdom rapidly returned to her pre-war position of a considerable surplus on current account with the rest of the Sterling Area. In 1938 this surplus is estimated to have been approximately £110 million;[1] in the years 1946–50 it averaged almost £160 million, though the first half of 1951 showed a tendency to fall below this rate.[2] Within this total, changes in the pattern of current trans-

[1] See *Economic Bulletin for Europe*, vol. 1, no 2, article on 'The Balance of Payments of the Sterling Area'.

[2] Probably most of the increase is due to price changes. Price indices of

actions can only be followed by reference to visible imports and exports as set out in Table 4. It should be borne in mind that the table shows imports measured at their value on arrival in the

TABLE 3

United Kingdom Post-war Financial Relationship with the Rest of the Sterling Area (£ million)

	1946	*1947*	*1948*	*1949*	*1950*	*Jan–June 1951*	*Total*
Sterling accruing to Rest of Sterling Area							
1. In current transactions . .	+39	−102	−232	−273	−218	−46	−832
2. In capital transactions . .	−60	+270	+148	+279	+134	+98	+869
Net accrual (+) or deficit (−) .	−21	+168	−84	+6	−84	+52	+37
Offset by gifts to U.K. (−) . .	...	−30	...	−16	...	...	−46
Sterling received from (+) or paid to (−) countries outside Sterling Area	−32	−78	+75	−13	+190	+121	+263
Net surplus (+) to be disposed of or deficit (−) to be financed .	−53	+60	−9	−23	+106	+173	+254
Disposal or financing:							
1. Purchase (+) or sales (−) of dollars to Dollar Pool* . .	+64	+266	+77	+89	−154	−148	+194
2. Other contributions (−) of dollars to Dollar Pool† . .	+2	+7	−17	−33	−18	−6	−65
3. Sales of gold to U.K. (−) .	−82	−84	−55	−68	−100	−41	−430
4. South African gold loan (−) to U.K.	...	...	−80	...	...	...	−80
5. Increase (+) or decrease (−) in sterling balances of Rest of Sterling Area . . .	−37	−129	+66	−11	+378	+368	+635
	−53	+60	−9	−23	+106	+173	+254

* This is the surplus or deficit of the rest of the Sterling Area with the Dollar Area only. In so far as Sterling Area countries bought dollars from the Dollar Pool to finance transactions with non-sterling, non-dollar countries who required payment in dollars, the total should be bigger. This should be borne in mind when comparing the amounts which the rest of the Sterling Area drew from the Dollar Pool with the amounts it contributed to it. The official figures do not reveal how much of the gold and dollar payments to these third countries was on United Kingdom account and how much was on account of the rest of the Sterling Area. Total payments on account of the Sterling Area as a whole were as follows, in £ million:

1946	*1947*	*1948*	*1949*	*1950*	*Jan.-June 1951*	*Total*
+75	−173	−81	−89	−27	+32	−263

(Payments −, receipts +)

† Drawings on and contributions to the International Monetary Fund and Bank by the rest of the Sterling Area, and E.R.P. dollars received by the Irish Republic. All these were turned into the Dollar Pool.

United Kingdom; that is to say, including the cost of insurance and transport. This serves to exaggerate any adverse balance which

exports are not available for individual countries, so that an accurate assessment is impossible.

the United Kingdom may show and diminish any favourable balance, because the costs of transport and insurance on the goods are more often paid to residents of the United Kingdom than to

TABLE 4

U.K. Exports to, Imports from, and Balance with the Rest of the Sterling Area

(Exports f.o.b., Imports c.i.f.; £ million)

	Average 1936–8	*1946*	*1947*	*1948*	*1949*	*1950*	*Average 1946–50*
Australia:							
Exports	37	55	72	145	189	257	144
Imports	68	67	97	169	213	220	153
Balance	−31	−12	−25	−24	−24	+37	−9
New Zealand:							
Exports	20	28	43	53	63	87	55
Imports	47	74	90	109	117	134	105
Balance	−27	−46	−47	−56	−54	−47	−50
India:							
Exports	34	81	92	96	117	97	115
Imports	52	69	94	96	99	98	102
Balance	−18	+12	−2	0	+18	−1	+13
Pakistan:							
Exports	*	*	*	18	33	41	*
Imports				11	15	26	
Balance				+7	+18	+15	
Ceylon:							
Exports	4	7	12	13	15	17	13
Imports	11	30	23	26	27	28	27
Balance	−7	−23	−11	−13	−12	−11	−14
South Africa:†							
Exports	40	76	93	122	126	122	108
Imports	16	15	26	33	34	55	33
Balance	+24	+61	+67	+89	+92	+67	+75
Rest of the British Sterling Area:							
Exports	59	133	192	245	293	315	236
Imports	74	140	205	277	300	376	260
Balance	−15	−7	−13	−32	−7	−61	−24
Rest of non-British Sterling Area:‡							
Exports	31	60	80	103	99	110	90
Imports	30	41	40	59	69	76	57
Balance	+1	+19	+40	+44	+30	+34	+33
TOTAL STERLING AREA:							
Exports	225	440	584	795	935	1,046	761
Imports	298	436	575	780	874	1,013	737
Balance	−73	+4	+9	+15	+61	+33	+24

* Pakistan is included with India in 1936–8, 1946, and 1947, and in 1946–50 average.
† Including SW. Africa.
‡ Eire, Burma, Iceland, and Iraq.
§ India and Pakistan together.

residents of the country of origin. Nevertheless, Table 4 should fairly reflect any changes that have occurred. As a source of imports the rest of the British Sterling Area, which signifies the colonies, has considerably increased in importance; it supplied 34·9 per cent. of United Kingdom imports from the Sterling Area in 1946–50 as against 24·8 per cent. in 1936–8. As a result of this large increase, all other Sterling Area countries lost something of their relative position, except Ceylon which showed a small gain; but the loss was nowhere particularly marked. The colonies also increased their share of United Kingdom exports to the Sterling Area from 26·2 per cent. in 1936–8 to 31·1 per cent. in 1946–50. So also did Australia and India and Pakistan, but to a much smaller extent. Ceylon retained approximately the same share; the others lost but none significantly. The net effect of these changes upon the United Kingdom's visible balance with the rest of the Sterling Area was to turn it from a deficit of £73 million in 1936–8 to a steady surplus, averaging £24 million between 1946 and 1950. This improvement was most marked in the case of trade with South Africa; it also occurred with Australia, India and Pakistan, and the non-British Sterling Area. There was slight deterioration in trade with Ceylon and the Colonies, and somewhat more in trade with New Zealand. The pre-war pattern of trade balances has remained almost unaltered.[1] In 1946–50, as in 1936–8, there were deficits in visible trade with Australia, New Zealand, Ceylon, and the Colonies, and surpluses with South Africa and the non-British Sterling Area. The only change from deficit to surplus occurred in trade with India and Pakistan. In general no startling changes appear to have occurred in the United Kingdom's trading relations with other members of the Sterling Area except perhaps the increased interdependence of the United Kingdom and the Colonies. The most noteworthy developments are those which have attended the financial transactions of the members.

These are set out in Table 3. The period falls into two parts; from 1946 to 1949 inclusive, and the year and a half from January 1950 to June 1951. During both periods there has been a considerable surplus of the United Kingdom on current account with the rest of the Sterling Area; and during both periods this has been almost exactly offset by a large capital movement outward from

[1] This statement might be qualified if imports were measured f.o.b., since some of the adverse balances have diminished in size.

the United Kingdom. But here the similarity ends, and the difference begins. In the first period, on the one hand, the rest of the Sterling Area drew heavily on the Dollar Pool to finance its deficit with the Dollar Area.[1] In return it contributed gold, by sale and loan, and dollars by drawing on the Bretton Woods institutions and through E.R.P. aid given to the Irish Republic. But these contributions fell short of the dollars withdrawn, and the balance had to be paid for by running down sterling balances. In the second period, on the other hand, the rest of the Sterling Area was contributing dollars to the Dollar Pool, arising out of its favourable balance with the Dollar Area, as well as its currently produced gold. In return it was receiving sterling; but in addition it gathered a large amount of sterling from outside the Sterling Area altogether, paid over in multilateral trade. All these factors caused an enormous increase in the sterling balances of the rest of the Sterling Area which far outweighed the decline of the previous four years.

During the eighteen months from the end of 1949 to the middle of 1951, the Sterling Area has once again functioned according to the relationship which used to hold in pre-war days between the United Kingdom and its other members. The latter have achieved a surplus of dollars which, together with their current output of gold, have flowed into the Dollar Pool. But at the same time there has been an alarming increase in the sterling balances held by these other members. In other words, the recent gold and dollar surpluses of the rest of the Sterling Area have gone not to acquire sterling needed to settle the current account deficit with the United Kingdom, but to accumulate sterling assets which may at any time be reconverted into the hard currencies with which they were originally bought. For this there have been two causes. First, between the end of 1949 and the middle of 1951 there has been an influx of sterling to countries of the rest of the Sterling Area through transfers from countries outside. This is not unwelcome, since this sterling, had it not been so transferred, might have become convertible into gold through existing payments agreements between the United Kingdom and the countries which transferred it. Secondly, there has been, throughout the period from the beginning of 1947, a continuous movement of capital outwards from the United Kingdom to the rest of the Sterling Area. In four and a half years this outflow amounted to rather over £900

[1] See note * to Table 3.

million, and in the same period the sterling balances of the rest of the Sterling Area increased by somewhat under £700 million.[1] The position of the United Kingdom in the Sterling Area is thus somewhat similar to her position in the world as a whole during the years which preceded the abandonment of the Gold Standard in 1931. She is borrowing short and lending, if not long, at any rate in a form which makes it difficult to recall her assets. For the capital movement outwards from the United Kingdom has been largely of such a nature that it cannot be traced and liquidated when there is a run on the sterling balances. It has supplied the rest of the Sterling Area with sterling resources which can be converted at will into hard currencies through the Dollar Pool. And furthermore, if this occurs and the gold and dollar reserves are threatened, the result is likely to be a fresh outflow of capital, induced by shaken confidence among investors in the United Kingdom, and this may add fuel to the flames.

Hopes were raised in 1950, when the Sterling Area first ran into surplus with the Dollar Area, that a multilateral solution of the dollar problem might be in sight. The United Kingdom surplus with the rest of the Sterling Area and her deficit with the Dollar Area needed only a surplus of the rest of the Sterling Area with the Dollar Area to complete the triangular pattern. The countries of the rest of the Sterling Area would need sterling: to acquire it they could sell their surplus dollars to the United Kingdom. As it turned out, however, the flow of capital from the United Kingdom, which has been in progress for some years, has provided a steady supply of sterling, with the result that their sales of gold and dollars have not been needed to settle their current requirements of sterling but have gone to augment their sterling assets. And these now hang heavy with menace to the gold and dollar reserves available for conversion into dollars at will. The Dollar Pool has been playing a part different from that for which it was hopefully cast. It has been receiving gold and dollars from the rest of the Sterling Area but only at the expense of a liability which might involve their repayment; it has not received them in payment for goods and

[1] The increase in the sterling balances occurred between the end of 1949 and the middle of 1951; the capital outflow was continuous throughout the period. But had there been no capital outflow between 1947 and 1949 the sterling balances would have been reduced more than they were in those years, so that they would not have increased by anything like £700 million over the period as a whole.

services, since there has been sterling enough available for the rest of the Sterling Area to settle its bill for these out of the movement of capital from the United Kingdom.

Here, then, are the elements of a dangerous situation. But the present danger only emphasizes the permanent risk. Since capital can move freely from the United Kingdom to elsewhere in the Sterling Area, and since demands from the other members for the conversion of their sterling balances into dollars are automatically satisfied from the Dollar Pool, there is always the risk that it may be overwhelmed. Against this there is no defence except the self-restraint of the individual members. There is no action that the United Kingdom can take to check the members' demands on the Dollar Pool, either by immobilizing their balances or by engineering the harder monetary conditions in their domestic economies which would contribute to that end. Indeed, any suggestion that the United Kingdom might assume such powers would spell the end of the Sterling Area as a free association of independent nations. The only concerted actions by the members of the Sterling Area to safeguard the resources of the Dollar Pool have been the conferences which took place in 1947, after the convertibility crisis, and in 1949, shortly before the devaluation of the pound. At the first of these, the members agreed to tighten their import licensing to stop leakages of capital into the outside world and to become self-supporting in hard currencies. At the second, they agreed more specifically to cut their dollar expenditure by 25 per cent. Both of these gatherings, however, were convened *ad hoc*. Although there are now in existence two permanent organizations, one of which is a fact-finding body and the other more akin to a discussion group, a crisis can only be met through the cumbersome machinery of a conference summoned especially for the purpose. That decisions concerning the policy of the whole Sterling Area should be taken only by agreement of all the members is proper and inevitable. The chief advantage which attaches to membership of the Sterling Area is that it maintains a pool of hard currency which can be drawn upon by each member, so that none must rigidly confine its hard currency expenditure to its own hard currency receipts; and this advantage would be destroyed if the right to draw freely on the pool, if need be, were subject to unilateral restriction by the United Kingdom. Yet the slowness with which the machinery of a conference can creak into action points to the need for experi-

menting with mutually agreed devices to ensure a quicker-working, automatic regulation of the sterling balances of members and through this of the potential drain upon the resources of the Dollar Pool.

It is inevitable that any such device could work only through the offer of incentives to members to refrain from converting their balances of sterling into dollars. There could be no hint of restriction; only persuasion would be consistent with the autonomy of members. Yet if persuasion were exercised through variations in the rate of interest allowed on the sterling balances, this too would prove a trespasser on autonomy.[1] For if the rate on balances of members held in London were raised, it would attract funds from elsewhere in the Sterling Area and this would force up rates in the Area as a whole. The domestic economy of each member would be subjected to the influence of London. And not only this: for the United Kingdom also would find herself influenced from outside. When the rest of the Sterling Area ran into dollar difficulties and began to convert its sterling assets into dollars, the United Kingdom would be forced to raise the rate of interest on sterling balances; and this would affect all interest rates in the United Kingdom, and through these the state of the domestic economy. It would in fact amount to a revival of the technique of the bank rate under the Gold Standard.

It may be that we are ready for this. The Sterling Area is, after all, a qualified form of the Gold Standard. Among its members sterling is convertible into gold at a fixed rate of exchange and without limit, subject to the qualifications earlier discussed. Yet it has denied itself the use of the main weapon in the Gold Standard's armoury. That it should continue to defend itself against the dangers which threaten it simply by exhorting its members to self-restraint, some would call magnificent; others would call it incredible. All would have serious doubts whether it could go on for ever.

[1] Apart from this, there is the different question whether interest could provide a strong enough control when sterling is beset by speculative influences.

CHAPTER XXV

BRITAIN AND OVERSEAS DEVELOPMENT

By PETER ADY

WITH the increasing supply of primary products there has been since 1870 a steady improvement in the terms of trade of manufactures for food and raw materials.[1] Despite the fall in prices of their commodities, primary producers, specializing in new and more productive employment, have also enjoyed a rising real income; but this mutual gain has tended to be forgotten in the economic vissicitudes of the inter-war years. By 1930 the great period of expansion was over. In many commodities the inter-war years saw relatively little change in the volume of production and, with the 1930 slump came the second swing in the terms of trade against the primary producer, now ascribed largely to the cyclical fall in world demand, coupled with short-period inelasticity of supply of agricultural products as compared with manufactured goods, especially for those crops with a long period of production.

The 1930's were a period of great agrarian distress and discontent, the counterpart of the unemployment and the idle plant of the industrial west. To the economic instability of this inter-war period can be traced a number of attitudes still current: the growing economic nationalism and suspicion of foreign capital in the Far East and the widespread desire for industrialization in the one-crop peasant areas of the West Indies and West Africa.

In Britain, too, there was some change of attitudes, culminating in the abandonment of Free Trade in favour of Imperial Preference in 1932. The interdependence of the territories of the Empire is no new doctrine, but it is only in this period that the need for collective action of this kind was generally admitted to be necessary. An earlier indication of this change of view is perhaps the first Colonial Development Act, of 1929. This, despite its title, had the 'primary object of relieving unemployment in Great Britain'.[2]

[1] See *Relative Prices for Exports and Imports of Underdeveloped Countries*. U.N., New York, 1950.

[2] Cmd. 7167, 1947, p. 11.

The economic difficulties of the 1930's, manifesting themselves not only in the stagnation of trade but in riots and strikes in various corners of the Empire, led to a series of reports of great importance. Taken together, these constitute a general review of Imperial economic and political problems ranging from the commodity studies of the Imperial Economic Committee to the reports of Commissions of Enquiry, the most outstanding of which are those of the Royal Commission on the West Indies and of the Commission on the Marketing of West African Cocoa. They express concern at the extreme instability of primary product markets. They also recognize the alarming rate of population growth in the backward territories of the Empire, and discuss some of its implications.

Policy in the decade before the war continued upon an *ad hoc* basis, moving slowly but more or less in the right direction of promoting greater economic stability and fostering economic development. Some of the measures had the character of acts of immediate self-preservation, whose long-term consequences were not always realized. The general curtailment of investment in industrial societies had its counterpart in the commodity restriction schemes for primary products, the effects of which are being felt today in the reversal of the terms of trade. Other measures, such as the extension of protection, can be argued to have a more enduring value in a world suffering from fluctuations in income and in demand. The extensions of the Colonial Development Acts come in a still more permanent category, based as they are upon reports upon the economic conditions obtaining in the British Colonial Empire. The indications of rapid population growth in the Colonies, in relation to the narrow basis of their economic existence, have been sufficient to awaken recognition of their needs. The second and later Colonial Development Acts put forward the provision of welfare services as immediate aims but the promotion of economic progress as the ultimate object.

Co-operation in Imperial economic affairs was one major outcome of the economic difficulties of the 1930's; and, with the outbreak of war, the degree of co-operation was greatly increased. As a result of the experiences of the First World War, bulk purchases to support the British Food Defence plans were promptly made and long-term contracts were placed with some Empire suppliers. The British Government undertook to purchase annually the entire

colonial output of sugar and cocoa for the coming season, a guarantee which was renewed each year at the beginning of the season when the growers' price was also fixed. One aim of these contracts was to protect the colonial industry against a total loss of markets in the event of shipping difficulties, such as those which had arisen in the previous war and which were to prevent the shipment of the entire cocoa crop of 1941 from West Africa. The West African cocoa crop, which had been purchased from the peasant growers, could not be shipped for sale owing to the submarine campaign and was finally burnt to make room in West African warehouses for the crop of the year following. The exportable surplus of the Australian and New Zealand wool clip was also purchased by the British Government from 1939 and guarantees of this kind, of benefit to both producer and British consumer, were later extended to other Commonwealth products.

At a time when the emergency was forcing Britain to sell foreign assets to pay for American supplies, the Sterling Area currency arrangements took on a new importance. Not only did they enable the British Government to undertake such marketing commitments, but, at a later stage, they made possible a free flow into Britain of unrequited imports of vital war supplies of all kinds, reflected in the accumulation of sterling balances in London.

Economic difficulties did not end with the war, and closer Commonwealth co-operation has continued to be a feature of the post-war years. Sterling Area currency arrangements are discussed elsewhere, and this chapter will be confined to a consideration of the trade and fiscal policies and institutions which have been the outcome of the post-war period.

While both policy and the institutions developed in this period have often arisen *ad hoc*, in response to specific and immediate needs, such as Sterling Area balance of payments crises, it can be claimed that the promotion of stability and the fostering of economic growth have been the underlying aims of policy. Bulk purchasing and long-term contracts have been maintained to secure a stable and expanding supply of the chief imported food-stuffs required by the British consumer. A parallel series of institutions has also been set up in colonial areas to stabilize producers' prices by organizing the collective marketing abroad of peasant export crops. Finally, programmes for the economic development of the backward areas of the Commonwealth have been initiated with

the aim of increasing their wealth and welfare, and of breaking the Malthusian cycle of poverty and population growth.

The commodity marketing arrangements go only part of the way to meet the common desire of producer and consumer for some stabilization of prices and output. The need for such stabilization was stated in the International Trade Charter and it is still widely recognized, despite the continuing lack of any generally acceptable international scheme. The case has recently been stated again as follows.

> The development of a high and stable level of trade between primary producing countries and their customers is of the greatest importance to Europe. It is more than desirable that a large volume of exchanges should be consistently maintained without violent fluctuations which, on the one side, put European countries in permanent fear of difficulties with their overseas balance of payments, and, on the other, inhibit production and cause general economic instability in the primary producing countries.[1]

Of the European countries the United Kingdom is among the most vulnerable, because of the high proportion of food in her total imports of primary products. It is perhaps for this reason that her experiments in consumer-producer collaboration have gone furthest. While British schemes are primarily designed to foster the interest of consumers, by ensuring steady supplies and encouraging production, they have reaped unexpected price advantages in this period of high commodity prices. The effect of these price relationships upon producers' reactions has perhaps received too little attention. Although the schemes also serve the interests of producers, since they guarantee a market, not all producers have remained conscious of this benefit in the absence of a post-war slump. Even excluding cyclical fluctuations in world trade, these long-term contracts do give valuable insurance against unforeseeable risks, such as bumper crops in competing areas, or sudden changes in the consuming country's domestic policy. Despite such cogent arguments for their use, to be found even in official publications, it must be admitted that bulk contracts are essentially the result of war-time experience. They have continued to be placed in the early post-war years but on a declining scale (see Table 1).

Between 1947 and 1950, the value of all bulk contracts in total

[1] *Economic Bulletin for Europe* (1st quarter 1951), vol. iii. no. 1.

imports declined from 64 per cent. to 46 per cent. of the value of all imports. In the total value of bulk contracts placed, the share of contracts for food increased from 62 per cent. to 68 per cent. over the same period.

Bulk contracts are not necessarily for any extended period forward. Nor are all government purchases made in bulk. By no means all British Government bulk purchases abroad were long-term: many have been only for spot or forward sales, e.g. in raw material markets such as tin. In accordance with British needs, the most

TABLE I

Government Purchases 1947–50 in £million (f.o.b.)

	1947	*1948*	*1949*	*1950*
Ministry of Food	615	696	752	742
Ministry of Supply	72	89	106	101
Board of Trade	256	200	178	100
Raw Cotton Commission	56	99	114	150
A. Total of above	999	1,084	1,150	1,093
Percentage of food in Total A	62%	64%	65%	68%
B. Total imports (f.o.b.)	1,560	1,790	1,971	2,374
A as percentage of B.	64%	61%	58%	46%

Source: *Economic Bulletin for Europe* (1st quarter 1951), vol. iii, no. 1, p. 42.

important and far-reaching contracts tend increasingly to be in the major foodstuffs. Whereas the first post-war contracts were as a rule, short-term, at most for a year at a time, there has been a tendency in food contracts to make long-term agreements. The dates of expiry for the outstanding major contracts in food, for example, range from 1952 to 1955. In the case of raw materials, which are still purchased on short-term contracts at prevailing market prices, no special issues are involved. With the longer-term food contracts, both prices and quantities have to be fixed ahead. There were, for example, in 1950, long-term contracts for wheat, cattle, meat, bacon, eggs, butter, cheese, and sugar. These contracts were generally for four years ahead. The policy has been to contract for the purchase of an agreed fraction of the total exportable surplus at prices annually reviewed, within the limits of a stipulated maximum variation from the preceding price.

Price fixing has been the main source of difficulty in the negotia-

tion of long-term contracts. Where the number of buyers and sellers is so small, there is no 'equilibrium price' and it is possible for both buyer and seller to feel that they have suffered.[1] The Argentine meat negotiations are the outstanding post-war instance of these difficulties, which arise chiefly from the impossibility of forecasting the probable level of prices, and the impact upon prices of sudden major changes, such as the devaluation of sterling. Even without such violent changes, the forecasting of world market conditions has frequently been mistaken. In the bulk purchase agreement of 1946, Canadian farmers, expecting a decline in the world price, accepted a price below the world market level. In 1950 Canada declined to renew the wheat agreement with Britain because of the 'losses' sustained in the four-year period.

In the period 1945–50 the British consumer has paid appreciably less for foreign food, bought on long-term bulk contract, than the prevailing level of world prices in the same commodities.[2] This is only to be expected in a period of rising prices, since the earmarking of an appreciable fraction of the total supply for the U.K. market reduces the supply available for the free world market and tends to raise prices of these marginal quantities.

In a world of cyclical fluctuations, there would equally be periods in which the guaranteed long-term price would be above the market price. Indeed, one of the arguments put forward in support of long-term contracts is their contribution to income stability. Long-term contracts have also been favoured as tending to foster greater production, especially in crops where the period of production is long and the investment relatively heavy. The evidence up to 1950 is inconclusive upon this point, production and exports in only a few countries having risen appreciably in response to British long-term contracts.

The problems of price-fixing have discouraged any general application of long-term bulk contract agreements, except in the major foodstuffs consumed in this country. The main contracts placed have been with non-dollar suppliers and with the object of ensuring an appreciable fraction of the imported supply of rationed goods. With minor foodstuffs and a certain number of

[1] For a fuller discussion of this point see Henderson, 'A Geometrical Note on Bulk Purchase', *Economica*, 1949.

[2] See 'Note on British Long-term Food Contracts', Statistical Appendix, *Economic Bulletin for Europe*, vol. iii, no. 1, pp. 48 seq.

raw materials, the tendency has been to revert to purchase by private importers.

In the case of imports from the colonial territories the exporter is now usually the statutory Board, set up by the colonial government to represent the producer. The purpose of these Colonial Marketing Boards is quite specifically to promote the interests of producers. Until 1950, no contract with consumers, except in the usual way for spot or forward sales, was entered into by the Marketing Boards, and the commodity was freely sold in the world market. This is still the method of sale for all Boards, except those for West African oilseeds and Uganda cotton, which latter have now concluded three-year agreements with the United Kingdom. One important effect of the Boards has been 'to break the link between the world price and the price paid to the producer'. In organization they are based upon the war-time prototype Cocoa Control Board developed to implement the British Government's bulk purchase guarantees given in 1939.[1] From the Cocoa Control Board have grown the post-war Cocoa Marketing Boards of the Gold Coast and Nigeria, which have proved peculiarly suited in form to deal with some of the major shortcomings of the pre-war marketing system, not only in cocoa but in other colonial exports produced by peasants.

Each Colonial Marketing Board is an independent body, whose membership, fixed by Colonial Statute, varies slightly from colony to colony. It consists, as a rule, chiefly of representatives of the producers and of the Colonial Government, together with a representative of commercial interests. Sales upon the world market are conducted by the Board's London Agents, and certain economies of selling are achieved by the centralization of sales of several commodities in the same agency. There is, for example, the Nigerian Marketing company which sells Nigerian cocoa and oilseeds in world markets. Except in the case of oilseeds and cotton the commodities are sold in the open market, whether to British or to other buyers. The selling price obtained varies from day to day but the producer is guaranteed his price for a season at a time and is given the long-run assurance of price-stabilization, though the long-run level of prices has not been easy to determine in these unsettled post-war years.

[1] See P. Ady, 'Bulk Purchasing and the Colonial Producer', *Bull. Inst. Stat.*, Oct. 1947.

Whereas the pre-war system of marketing was controlled by a small group of foreign exporting companies, the Marketing Boards now have a statutory monopoly of the right to export. The Boards buy the commodity through accredited buying agents at prices statutorily fixed for a year at a time, at the beginning of each season, and widely published in the producing area. Buying agents are granted fixed margins per ton to cover costs and hence the prevailing price in each buying area can be calculated, and is in fact published in the *Colonial Government Gazette* for the listed buying stations for each season. The peasant farmer is thus quite certain what is his due, a situation very different[1] from that obtaining before the war, when the price in world markets fluctuated from day to day, and the sole information about it obtainable by the peasant was that filtering to him through the chain of middlemen from the foreign companies which financed and organized the purchase of the crop.

The Board's annual fixed purchasing price bears no necessary connexion with the prices, still fluctuating, which rule from day to day in the world market. The continuing shortage of foodstuffs has kept the world prices of colonial commodities at very high levels, including those of cocoa, groundnuts, and palm-oil which are controlled by Colonial Marketing Boards. These boards, especially those marketing cocoa, have accumulated very large surpluses owing to the cautious policy[2] pursued with regard to the price paid to growers. The Cocoa Board's surplus, at £120 million, is by far the largest, because they have been operating longest. In the post-war conditions of almost continuous commodity price inflation on world markets it has been difficult to resist the continuous pressure to raise the producers' prices.

It was the war-time success of this method of marketing for cocoa which led to its post-war extension to other crops as further experiments in price stabilization and general improvement of conditions in these peasant industries. It remains to be seen whether unilateral action of this kind by producers will be more successful in the post-war world than was the Brazilian Coffee Valorization Scheme of the 1930's. Brazil's problem was to balance

[1] See *Report of the Commission on the Marketing of West African Cocoa*, 1939, Cmd. 5845.

[2] Only one year of loss has been experienced, by the Cocoa Marketing Boards in 1948–9, when world prices suffered a temporary recession.

her foreign payments while pursuing a policy of price-stabilization in the teeth of world depression. Colonial import propensities are also high, and even with the continuation of Sterling Area arrangements as at present, some breakdown may occur in event of a world slump.

One way out may be found in the further development of long-term bulk purchase contracts between the Colonial Boards and the British consumer. The British market takes a large, though by no means the largest, fraction of colonial exports of primary products and the placing of long-term contracts may help to protect the sterling resources of the Marketing Boards in a continued slump. This would not solve the dollar problem for the Sterling Area as a whole but would provide some degree of income stability for the colonial producer and lead to some shift of his demand to Sterling Area imports. The fall in world prices of these colonial exports would, nevertheless, add to balance of payments difficulties for the Sterling Area as a whole, since they constitute an important source of dollars.

Although British long-term contracts have now, for several years, been placed with a number of other Commonwealth suppliers such as New Zealand (meat, butter, and cheese), Australia (meat, eggs, butter, and cheese), and Canada (wheat, bacon, eggs, and cheese), the first long-term contracts with Colonial Marketing Boards date only from 1950. The British Government has now undertaken to purchase the entire export surplus of West African oilseeds and Uganda cotton at prices to be fixed annually before the season. The contract prices have so far been below the boom levels of 1950 and 1951. In the present boom conditions it is difficult to convince the peasant farmer of the wisdom of accepting such a contract, even if suitably long term, at anything less than the prevailing market price and, because of the political suspicion that exists, such contracts are liable to attack as being methods of exploitation. Further movement in this direction by Britain, unless it is precipitated by the long expected post-war slump, may therefore have to wait upon international action.

The dual character of British commodity arrangements with Dominion and Colonial producers meant that, in the period up to 1950, there has been some divergence in the British terms of trade with each of these two groups. The British terms of trade as a whole have deteriorated, particularly since 1947, but more so

vis-à-vis the Colonies than the other food-producing areas of the Commonwealth.

With the exception of Commonwealth countries that were invaded, like Malaya, the war-time bulk purchase guarantees given by Britain have been of value in many areas in preserving their peace-time structure of production and making possible a rapid return to the pre-war pattern of exports. The pre-war pattern of Sterling Area trade as a whole is still far from being restored and the colonial share in it has altered radically in significance. This is partly due to the restrictions upon prices and quantities which have characterized the different years. Up till 1947 primary product prices were kept low and the flow of supplies was determined by international allocation schemes, especially in foodstuffs. After 1947 and more particularly after 1949, the rise in world commodity prices has led to a sharp increase in export earnings in primary product countries. In the British colonies this has meant a corresponding increase in the demand for imports only partially damped down by the cautious producers' price policy of the Marketing Boards. British supplies have been relatively scarce for much of the period, but the substitution of dollar goods has been restricted by import licensing, operated separately in each Sterling Area territory, and without global restrictions upon dollar drawings from the Sterling Area dollar pool.

Nevertheless the dollar surplus of the colonial territories has not returned to its pre-war proportion of their dollar earnings. Whereas before the war less than 25 per cent. of colonial dollar earnings were spent on colonial dollar imports, after the war and even after devaluation, expenditure on dollar imports by the Colonies continued to run at about 50 per cent. of their dollar earnings until 1950, when there was a sharp rise in the latter owing to the commodity stockpiling boom.

In 1950 a complete return to the multilateral pattern was achieved, with the American surplus of exports to Britain offset by a British surplus with the Sterling Area which was itself in surplus with America. The colonial contribution to the Sterling Area dollar pool was particularly large in this year of abnormally high commodity prices. Their dollar surplus appears to have been offset by imports from soft currency areas in the first few post-war years, as the aggregates of imports and exports are almost equal till 1950. It is to be noticed that the commodity trade withheld from the

U.S.A. by colonial import restrictions has been replaced, not so much by purchases from Britain as from the rest of the Sterling Area and from O.E.E.C. countries.

TABLE 2

Direction of Colonial Trade

Origin of Total Imports into Colonial Territories (excluding Hong Kong) c.i.f.

Period	U.K. £ (m)	U.K. per cent. of total	U.S.A. and Dependencies and Philippines £ (m.)	U.S.A. and Dependencies and Philippines per cent. of total	Total £ (m.)
1936	3·1	29	0·7	6	10·8
1937	3·9	27	1·0	7	14·3
1938	3·5	29	1·0	8	11·9
1947	9·8	27	5·2	14	36·3
1948	14·5	32	5·1	11	45·9
1949	18·0	35	3·9	7	52·1
1950	20·9	31	3·4	5	67·9

Destination of Total Exports from Colonial Territories (excluding Hong Kong) f.o.b.

Period	U.K. £ (m.)	U.K. Per cent. of total	U.S.A. and Dependencies and Philippines £ (m.)	U.S.A. and Dependencies and Philippines Per cent. of total	Total £ (m.)
1936	3·3	25	3·5	26	13·2
1937	4·6	26	4·7	27	17·7
1938	3·8	30	2·1	17	12·7
1947	11·1	33	7·2	22	33·2
1948	14·9	33	7·6	17	45·5
1949	16·5	33	7·3	15	49·5
1950	22·6	26	15·8	18	84·4

Source: *Digest of Colonial Statistics*, No. 1, London, March–April 1952, p. 9.

In the first five post-war years colonial sterling balances nevertheless rose from the war-time total of just over £600 million to close on £1,000 million. This rise is partly the reflection of the vastly increased currency circulation in the colonial territories themselves, for all are on a 100 per cent. sterling exchange stan-

dard. Other components of the increase are the surpluses of the Marketing Boards already mentioned, and the budget surpluses of colonial territories, still normally invested in London.

The sterling balances of the Colonies differ from those of India, Pakistan, Ceylon, and the Middle East in that they have never been specifically blocked. Their present level is the reflection of colonial fiscal policy in the post-war commodity boom following the war-time inflation. It is proposed to draw these balances down to some extent for the finance of current development programmes.

From Table 2 it can be seen that colonial trade with the United Kingdom rose very sharply in this period, partly owing to the dollar scarcity and partly because devaluation had improved the intra-Sterling Area terms of trade as compared with those obtainable in transactions outside the area.

The attempt to increase the self-sufficiency of the Sterling Area has also been directly fostered by two new organizations, the Overseas Food Corporation and the Colonial Development Corporation. The aim of the former was initially to investigate the possibilities of promoting the production on a large scale of any foodstuffs within the Commonwealth. It has been in charge of operations in the Groundnut Scheme since 1948 but, despite the expenditure up to 1950 of over £30 million, there has so far been little to show for it. Under the Overseas Resources Act of 1951 the O.F.C.'s objectives have now been limited to those of an experimental development project in East Africa, under the direction of the Secretary of State for the Colonies.

More successful so far have been the operations of the O.F.C.'s subsidiary, now independent of it, the Queensland-British Food Corporation, which is engaged in large-scale growing of fodder crops and the fattening of cattle and pigs in North Queensland. The area under cultivation is less than 100,000 acres, although a total of 500,000 acres has been acquired. The acreages cleared in East Africa by the O.F.C. were also just under 100,000, of which 84,000 were sown with all crops. Although this area compares in size with that in Queensland, the capital costs of clearing the land and the lack of experience in farming it have so far made the African territory units completely uneconomic.

The Groundnut Scheme was originally conceived not only as a means of increasing world supplies of oilseeds but as a contribution to the economic development of Africa. The difficulties

facing the O.F.C. in Tanganyika are symptomatic of the problems of African economic development as a whole. There is firstly the problem of soil fertility. Even in the High Forest Belt fertility is not initially high and it tends to fall off rapidly once the forest cover is removed.[1] The African method of shifting cultivation with a fallow period of years is wasteful of time and labour but it does preserve soil fertility if the fallow period is sufficiently long. With the increase of African populations in the twentieth century there are many areas where a loss of fertility is taking place and it is thought that the pressure of population on the land is becoming acute in some parts. While overpopulation on the land is one argument for industrial development, the prime necessity of agricultural improvement and the extension of cultivation remains if African food supplies are to be safeguarded in the face of population growth.

The second difficulty has been the undeveloped character of transport, communications, and all public utilities, especially power. As a U.N. Report[2] points out: 'In countries at the lowest level of development, lack of basic facilities is a major bottleneck.' Finally, there is the almost complete lack of skilled labour of any kind. It is these problems, so characteristic of colonial territories, which the Colonial Development Plans have been devised to solve. The first Colonial Development Act, passed in 1929, provided £1 million a year chiefly for the promotion of economic development in the Colonies. This first Act was designed with the 'primary object of relieving unemployment in Great Britain' but the emphasis shifted in the following decade to the promotion of colonial development alone. This change was the outcome of the reports of various Commissions of Enquiry, notably that of the Royal Commission on the West Indies, which forced the recognition that those islands constituted a 'depressed area' of the Empire. The case for the initiation of economic development in these and other colonial territories was accepted by the Acts of 1940 and 1945 which raised the allocation available for development first to £5 million a year and finally to £120 million to be spread over ten years. The allocations since 1940 have been both for development

[1] e.g. the West African High Forest Belt. See *Report on Mechanization of Native Agriculture in Tropical African Colonies*, H.M.S.O., London, 1950, p. 9.

[2] *Measures for the Economic Development of Under-developed Territories*, U.N., New York, May 1951.

and welfare, certain non-revenue earning expenditure now being required.

The schemes put forward by each territory have been termed 'Plans', but the economist looks in vain for any assessment of resources available, and of the ends which it is aimed to achieve in the given period. The 'Plans' have tended to become an unrelated list of desirable aims, selected from those put forward by the administrative departments in each territory. That there is a certain similarity between them is the reflection of the identity of problems in the different territories. In all these there is mention of the need for agricultural research and improvement, for extension of transport and communications, and for better education, health, and medical services. Planned expenditure under these heads is chiefly upon welfare services and upon investment in basic equipment for transport and public utilities, even in Africa[1] where agricultural productivity per acre is so low.

The 'Plans' are thus in no sense 'Economic Surveys' of the British type: they offer no guidance as to the extent to which the aims put forward are compatible with each other in their claims upon resources. Nor is any assessment offered as to the relative priority of ends. They are in any case only part of the total public expenditure intended in each territory. To the lists they give must be added projects to be financed by Marketing Board surpluses, together with expenditures in each territory to be met from C.D. & W. Central Schemes, such as those for research and surveys, and finally outlay from the special funds of the Colonial Development Corporation. While the aim of the Colonial Development and Welfare Acts has become explicitly that of 'raising the standard of living of colonial peoples', the idea of actively generating increases in income by means of public expenditure is still quite new, at least in colonial administrative circles. It is perhaps more surprising that no integrated plans of the British Economic Survey variety have been attempted in Whitehall.

One reason for this is the lack of adequate statistical information about the territories. For example, while census material suggests that populations are increasing, in Africa, at least, the rate of increase can only be estimated roughly. There is, further, no basis for estimates of overpopulation. Except in certain glaring instances,

[1] See Table 3, Statistical Appendix. *Investment in Overseas Territories in Africa, South of the Sahara*, O.E.E.C., Paris, 1951.

like Jamaica, it is by no means certain that, with present methods of cultivation, there is a primary surplus of population in agriculture, that is to say, that there is a surplus which could immediately be transferred to industry without causing dislocation in the agricultural sector of the economy. Yet, in the longer run, an improvement in agricultural methods will free a large proportion of agricultural workers from the land. Programmes of industrial development must go hand in hand with an agricultural revolution of some kind, even though the changes necessary may be relatively simple, such as the use of better agricultural tools and equipment and perhaps of labour-saving machinery at peak work periods. While ignorance about population trends and other basic economic data would make it impossible to answer the sort of question which plans, or surveys, should in principle ask, such questions have never been raised at all in the colonial plans. It might be argued that the first need is for more information, and a great part of current expenditure is inevitably being concentrated upon research and experiment, upon getting to know the territories and their problems. In agriculture, for example, it is becoming more widely realized that temperate climate techniques cannot be directly applied to the tropical environment: experiment and adaptation must precede innovations upon any large scale. Indeed the change of scale in itself creates new problems which must first be studied, as the Groundnut experiment has shown.

The present emphasis, even in the Groundnut Scheme itself, is upon smaller scale experiments, relating to mechanization of farming, crop rotation, the use of new varieties, and the control of cattle diseases (especially tsetse fly infection). Equally 'sound' in principle is the heavy proportion of development expenditure devoted to investment in basic equipment, in railways, harbours, roads, and communications generally. The whole of Africa, south of the Sahara but excluding South Africa and Southern Rhodesia, had no more than 16,000 miles of permanent way in 1939. Any considerable increase in regional production soon comes up against transport difficulties. In northern Nigeria, for example, served by a single line to its port at Lagos 700 miles away, the railways were unable to move the whole of the groundnut export surplus in the post-war years and have been as much as a year behind with deliveries. The same difficulties of transport are encountered in east African and other colonies. The lack of modern transport and

communications will be a serious obstacle to rapid development and there is a strong case for the high priority given to the development of communications and transport in all the colonial plans.

The great hiatus in the plans is the absence of any quantity of directly productive expenditure. The proportion classified as such is under 15 per cent. in the British territories of Africa.[1] Much of this is investment in agricultural schemes, some of which, if successful, will not only raise output but reduce the labour requirements of agriculture. Even in areas where no agricultural overpopulation yet exists, the technical changes being promoted may soon create it.

There are other reasons for regarding agricultural overpopulation as at least a potential factor in colonial development. Census returns, with all their shortcomings, already indicate a continuing increase in numbers, and with the advance of medicine and public health measures in tropical countries, there is every expectation that population growth will continue at an increasing rate. As a result of the advances in tropical medicine of the last fifty years Africa is no longer the white man's grave. Mortality rates are still high in African communities because of endemic ills like tuberculosis, malaria, and sleeping sickness, the proper treatment of which on a mass scale has not been feasible with the limitations of African resources. With the allocation of much C.D. & W. money to the improvement of medical and health services, a sharp fall in mortality rates of Africans can now be expected.

Will the increased freedom from disease raise the capacity to work of the African people? Or will the increase in numbers, in so far as it cannot be offset by increasing the area under cultivation, induce a Malthusian pressure which will in time reduce income per head? The aim of the development outlay is to raise income per head, but, in order to do this, aggregate income must rise faster than the population. As has been recently pointed out:

> Estimates of the proportion of the national income which must be saved in order to provide capital for a 1 per cent. increase of population vary between 2 per cent. and 5 per cent. Hence, an underdeveloped country in which population is increasing at the not uncommon rate of $1\frac{1}{2}$ per cent. per annum, probably needs nearly as much as it is normally likely to save, merely to cope with population growth.[2]

[1] *Investment in Overseas Territories*, Paris, 1951.

[2] *Measures for the Economic Development of Underdeveloped Countries*, U.N., New York, May 1951, p. 47.

The same report quotes the following estimates of the expected annual rate of population growth in the decade 1950–60: Africa, excluding Egypt, 1·25 per cent.; South Central Asia 1·50 per cent.

Both these areas contain many British dependencies whose most recent census figures suggest that these estimates are not too high. In the West Indies the rate is higher still.

Even to keep income per head from falling, therefore, it seems that an annual provision of capital for at least a 1 per cent. increase of population is needed, whether this capital consists of new land brought into cultivation or new productive capital of any kind. The magnitude of such a task is not generally realized. Estimates of the capital formation required to absorb one new worker into industry vary: the figure of about £900 per man put forward by the United Nations Report on Economic Development[1] is by no means the highest, relating as it does only to what is directly required for industry and for agriculture. At this rate the absorption of a 1 per cent. increase in the total colonial population of something like 80 million people will require something like £300 million per annum. The total capital required per year 'including that required for social overheads' is higher still.

The total provision under the Colonial Development and Welfare Act is itself only £120 million spread over ten years. In addition it is expected in the plans to raise an equivalent amount through loans, while the annual colonial budgets include in Public Works Extraordinary a section to be financed out of revenue and hence carried out independently of the development plans. It has been estimated[2] that, in Africa alone, public or semi-public bodies such as the C.D.C., O.F.C., Nigerian Coal Corporation, Rhodesian Railways, East African Railways and Harbours, the Uganda Electricity Board, and the Marketing Boards in Nigeria and the Gold Coast have invested or may invest approximately £140 million. For the United Kingdom territories in Africa the total of investments outside the plans proper, but including 'Central Schemes' for several territories together, add up to approximately £250 million. Excluding private investment the total expected through all forms of public and semi-public expenditure for British African territories is of the order of £500 million in the ten years. To this may be added a further £200 million for the proposed

[1] Loc. cit., p. 77.

[2] *Investment in Overseas Territories*, Paris, 1951.

expenditure in the West Indian and south-east Asian Colonies, making approximately £700 million in all.

This £70 million a year is not a large sum in relation to the magnitude of the task to be performed. Further, in the first five years since the war, actual expenditure has been relatively low. Initially this was because of the shortages of equipment from British factories. More latterly the difficulty has been that of finding the managerial and technical skill. There is, in fact, a shortage of skilled men at all levels, as technical schools were, and still are, rare in the 'liberal' systems of education provided in the Colonies. Hence expenditure on development, which remained very low till 1948, had even by 1950 not exceeded 25 per cent. of the ten-year target.

It is expected that private enterprise and capital will undertake the more directly productive investment, but the rate of private investment in colonial territories has so far been disappointingly small. The Colonial Development Corporation points to one reason:

many productive enterprises necessitate the prior installation of basic equipment, which requires larger amounts of capital, so it often happens that no profit can be earned for many years to come. This is why private capital is not forthcoming and why public capital has had to take its place.[1]

Direct investment from Colonial Development and Welfare funds into productive activities has not been very great. Instead a separate corporation, the Colonial Development Corporation, has been set up under the Overseas Resources Development Act of 1948 with a capital of £100 million and with powers to initiate enterprises of a productive kind. Its task is considerable. Its third published Report confirms the experience of the Groundnut Scheme.

Experiments are expensive; few new enterprises can afford to write off the costs. Where the Corporation has tried to avoid the expense and delay of adequate experiments and trials as in the Gambia[2] the results have certainly been unfortunate.

The C.D.C. has initiated fifty schemes in various territories in its first three years of operation. The total capital so far involved

[1] *C.D.C. 3rd Annual Report*, 1950.

[2] The Gambia poultry-farming scheme now abandoned.

is £31 million of which over £10 million had actually been spent by 1950. Once again a large proportion[1] of the schemes are agricultural but of great variety, ranging from cattle-ranching in Bechuanaland to experiments in mechanical cultivation of rice in north Borneo and British Guiana. The non-agricultural schemes include a cement factory in Northern Rhodesia, sack making and cotton-spinning factories in Nigeria, fisheries, and cold stores. The Corporation's report is cautiously optimistic, for a number of its schemes promise success in time.

In the Corporation's view the fiscal inducements and protections being offered, such as the pioneer industry laws of the West Indian colonies, 'are not yet sufficient to offset the heavier capital costs of the new industries, especially those with long development periods. This applies to all investors; the Corporation is in no privileged position.' Colonial territories must continue to rely not only upon foreign capital, but also upon foreign enterprise. When political risks and disadvantages must be added to the economic ones, the inducements required for private foreign investment must be rated still higher. The C.D.C. envisages handing over some of its schemes, when going concerns, to local enterprise but the prospects of achieving much by this method are limited in the immediate future. Even in newly independent countries like Burma there is reluctance to put capital into manufacturing or any other joint stock enterprise, and money-lending is still preferred to the financing of productive investment.

Yet as the C.D.C. Report points out:

> In relation to population and to the new investment needed to achieve any considerable improvement in living standards £100 million is a small sum. . . . Corporation investments should be so laid out as to attract other capital, and to stimulate capital accumulation within the colonies.

The scale of private investment in this first quinquennium does not appear to justify optimism on this score, particularly in relation to the additional private investment of £200–£250 million a year that population estimates indicate as necessary if income per head is to rise. An important aspect of this lack of productive investment is the burden of recurrent charges from the initial development and welfare schemes upon the colonial budget, if incomes remain stagnant.

[1] Twenty out of fifty.

What is the incidence of the colonial investment programme upon the British purse? The average annual rate of £70 million is still small in relation to a total of British gross capital formation of over £2,500 million in 1950. To this £70 million a year we must add British commitments to the Colombo Plan countries. The Colombo estimates put total external capital requirements in the six years at over £1,000 million, of which it is assumed that about one quarter will be provided from sterling balances already owned by the Colombo countries.[1] The sterling balances of India, Pakistan, and Ceylon have already been drawn down by £340 million in the period 1946–9, and it is estimated that another £246 million are available without reserves being unduly lowered. The drain on British resources is thus likely to be £41 million a year on the average, though somewhat higher in the early years, as far as these sterling balances are concerned. It is anticipated that there will also be some movement of private British capital to India.

The precise source from which the remainder of the finance for the projected investment programme will come is not defined in detail in the plan. While sterling balances are being drawn down by the developing countries, it has been hoped that the co-operation of other Commonwealth countries, Australia and New Zealand especially, will lead to the accumulation of sterling, thus easing the immediate burden on U.K. exports.[2] Some hopes are also pinned on private investment and on private loans to governments. Loans from the International Bank of Reconstruction and Development have already been obtained[3] and it is hoped that more assistance will be forthcoming. Finally there are government to government loans, not only from other Commonwealth governments, but from outside. As the Report puts it:

> The task of providing this financial support for the development of South and South East Asia is manifestly not one which can be tackled by the Commonwealth alone. The need to raise the standard of living is a problem of concern to every country in the world not only as an end in itself but also because the political stability of the area and its economic progress are of vital concern.

Whether the Colombo Plan will succeed in its aim of raising

[1] *The Colombo Plan*, Cmd. 8080, London, 1950.

[2] These hopes have so far proved unfounded as both Australia and New Zealand have been running a sterling deficit since 1950.

[3] India had borrowed \$62·5 million already from I.B.R.D. by 1950.

living standards depends upon the relationship of the investment target put forward to other economic indexes like the rate of population growth and existing national incomes in the Colombo Plan countries. This assessment can best be made for the Indian sub-continent alone, without the other Colombo Plan territories, for the reason that information about the former area is more extensive and somewhat more reliable than about the other countries. Further, the Indian sub-continent[1] presents the extreme example of the plight which all underdeveloped countries face to some degree: it is poor; capital formation is very small in relation to total income; and the possibility of raising domestic savings without pressure upon average standard of living, already at bare subsistence, is negligible. There is, finally, no doubt about the existence of widespread overpopulation on the land in India.

The Colombo Plan for India, Pakistan, and Ceylon envisages heavy expenditure on agricultural capital, yet it is expected that the six years will see an increase of the area under cultivation of only 13 million acres or 3½ per cent. Population growth in the coming decade is put at 1 to 1·5 per cent. per annum, so that the net increase of surplus population in agriculture will be 0·5 per cent. to 1 per cent. per year. Taking the lower figure, and using the index of £900 capital for every new worker in non-agricultural employment, we may put the rate of capital formation required to keep income rising at a minimum of £2,000 million a year, which is rather less than the rate of gross capital formation in Britain since the war. Colombo Plan public authority expenditure envisaged for these countries is £1,641 million in the six years, covering both internal saving and external borrowing; that is, it excludes £120 million already counted in the colonial total above to be spent in the south-east Asian colonies. This stresses once again the magnitude of the task being left to the private investor and other sources of capital and the size of the burden which would fall upon Britain if she were to shoulder it alone.

Some support has been expected from America through the Fourth Point Programme together with the guarantees to private investment recommended in the Rockefeller Report.[2] The earlier

[1] India, Pakistan, and Ceylon. The Colombo Plan countries also include Malaya, Sarawak, and British Borneo.

[2] *Partners in Progress*, Report to the President by the International Development Advisory Board, Washington, 1951.

Gray Report[1] had been less optimistic of the chances of promoting much private investment by fiscal measures:

> It seems probable that total American private direct investment abroad in the next few years will not exceed the 1947–9 average and may fall substantially short of this. Furthermore, only a few hundred million dollars, at most, is likely to be invested in underdeveloped countries outside the Western Hemisphere in properties not related to oil. Taking into account the known obstacles, and the uncertain effectiveness of the limited measures that can be taken to overcome them, it must be frankly recognized that private investment cannot be expected to solve the problem of financing development alone.

Both the Gray and the Rockefeller Reports envisage annual U.S. grants to underdeveloped areas of $500 million (£180 million). These are to be supplemented by loans, public as well as private, but the chief reliance is placed on private foreign investment, for which the anticipated volume is put at $2,000 million per annum. The current annual rate of private foreign investment to date is only $1,000 million, the greater part of which has been in petroleum.[2] Investment abroad in petroleum is expected to decline sharply after 1952. It seems probable, therefore, that in the Colombo estimates too much reliance should not be put upon U.S. investment, public or private.

To say that both Colonial Development and Colombo Plan expenditure fall short of what is needed is not to say that much more could usefully have been done in this period. Even with these relatively low investment targets of the plans as published, achievement has fallen short of expectations in these initial years partly because of the post-war period of scarcity of goods and partly because of the lack of sufficient numbers of administrators and technicians. Hence the importance of educational and training schemes in the development programmes. With the present scarcity of technical skills at all levels in these countries, there are sharply increasing costs in development owing to the increased dependence upon foreign workers, as the number and scale of projects increases beyond the limit of the available supply of local technicians.

Nor is it certain that development expenditure of the magnitude

[1] Report to the President on Foreign Economic Policy, Washington, Nov. 1950.

[2] See T. Balogh, 'International Equilibrium and U.S. Private Investment'. *Bull. Inst. Stat.* Aug. 1951.

indicated by the population problem could have been absorbed by these countries without a thorough-going inflation. The present production structure of these economies is highly inflexible: transport systems are export-orientated and the elasticity of supply of home-produced goods is low. The current supply of consumer goods imports has also been inelastic. Yet the income-elasticity of demand is high for imports even for basic foodstuffs, such as rice in India, and average consumption is still capable of rising with income. The aggregate income of the Indian sub-continent may be put roughly at £10,000 million so that investment at the required rate of £2,000 million or more would clearly impose very severe strains upon the economy unless a considerable fraction of this was financed by foreign borrowing.

This is not the place for a more detailed discussion of measures for economic development. The chief outcome of British experience in these years has been perhaps to emphasize the major questions to be debated. The first is the probable magnitude of a development programme sufficient to raise income per head. This question can only be answered when more and better information is available about population trends. The evidence so far suggests that the public authority investment programmes in British territories are far short of requirements, and that private capital has not so far been forthcoming on a sufficient scale to supplement them. It also appears to be the case that investment programmes for underdeveloped Commonwealth countries on the required scale may be difficult to finance out of Commonwealth resources alone, whether public or private, without an unpalatable curtailment of consumption all round. The importance of the American Fourth Point programme is obvious, yet some provision against the withdrawal of private American capital in slumps may be needed to mitigate the worse features of American foreign lending.

The solution of problems of economic growth like those of stability appear to depend upon international collective action, perhaps on the lines of the International Development Authority proposed by the United Nations Report. There is now at least general agreement that the promotion of economic development and industrialization overseas should be to the eventual gain of the industrial countries of the world. A considerable readjustment of their own economic structure will be made necessary but the promotion of overseas development is widely canvassed as integral to the aim of

an expanding world economy. What has not been faced is the question of means; the choice of agents to initiate and carry through the process; the choice of priorities in development and in welfare schemes; and the choice of measures such as the fiscal and financial supports necessary for success. Nor has thought been given to the integration of the different schemes for growth with those for the promotion of economic stability.

The armament programme has again postponed the consideration of these issues. It may be that the institutions for the financing of economic development like those for the promotion of stability will themselves have to wait upon the next world slump. Meanwhile the populations of underdeveloped countries continue to grow.

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The symbol (A) denotes a book or journal published only in the U.S.A.

The following abbreviations are made throughout:

A.E.R.	*American Economic Review* (A).
Bull. Inst. Stat.	*Bulletin of the Oxford University Institute of Statistics.*
C.J.E.P.S.	*Canadian Journal of Economics and Political Science.*
E.C.E.	United Nations Economic Commission for Europe.
E.J.	*Economic Journal.*
J.A.S.A.	*Journal of the American Statistical Association* (A).
J.P.A.E.S.	*Journal of the Proceedings of the Agricultural Economics Society.*
J.P.E.	*Journal of Political Economy* (A).
J.R.S.S.	*Journal of the Royal Statistical Society.*
L.C.E.S.	*Bulletin of the London and Cambridge Economic Service*
M.S.	*Journal of the Manchester School.*
M.S.S.	*Transactions of the Manchester Statistical Society.*
N.I.E.S.R.	National Institute of Economic and Social Research.
O.E.E.C.	Organization for European Economic Co-operation.
O.E.P.	*Oxford Economic Papers.*
P.E.P.	Political and Economic Planning. (P.E.P. publish Reports in book form, and an occasional broadsheet *Planning*.)
Q.J.E.	*Quarterly Journal of Economics* (A).
Rev. Ec. Stat.	*Review of Economics and Statistics* (A).

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W. R. BROWN and N. A. HOWELL-EVERSON, *Industrial Democracy at Work* (Pitman, 1950).

E. JAQUES, *The Changing Culture of a Factory* (Tavistock Publications, 1951).

G. R. MOXON, 'The Growth of Personnel Management in Great Britain during the War', *International Labour Review*, Dec. 1944.

The Times Review of Industry, 'Joint Consultation' (four articles, Apr. to July 1950).

A. TATLOW, 'Joint Consultation in Nine Firms', *Yorkshire Bulletin of Economic and Social Research*, Feb. 1951.

E. *Separate Industries and Services*

Institute of Public Administration, *Establishment Work in Local Authorities* (I.P.A., 1949).

H.M. Treasury, *Staff Relations in the Civil Service* (H.M.S.O., 1949).

H. A. CLEGG, *Labour Relations in London Transport* (Blackwell, 1950).

Ministry of Labour, *Report of a Committee of Inquiry on Unofficial Stoppages in London Docks* (H.M.S.O., Cmd. 8236, 1951).

E. BRUNNER, 'The Origins of Industrial Peace; the Case of the Boot and Shoe Industry, *O.E.P.*, June 1949.

K. KNOWLES, 'The Post-war Dock Strikes, *Political Quarterly*, July–Sept. 1951.

FISCAL POLICY (Chapter VIII)

I. SOURCES

Details of taxation raised, and of expenditure on subsidies and transfers, can be found in the National Income White Papers. This source is inadequate if expenditure on health and education is included under the heading of subsidies, when further reference needs to be made to the Civil Appropriation Accounts. Table 151 of the *Monthly Digest of Statistics* for May 1951 also contains some valuable detail on Social Service expenditure. Details of taxation rates may be obtained from the Reports of the Commissioners of Inland Revenue, and Reports of the Commissioners of Excise and Customs. Changes in taxation are reported in the Financial Statements accompanying the budget, while the Chancellor's reasons for the changes may be studied in *Hansard*.

II. INFLATION AND DEFLATION

The Economics of Full Employment (Blackwell, 1944) by members of the Oxford Institute of Statistics, still provides one of the best discussions of fiscal policy in deflationary conditions: contributions of particular relevance are those by M. Kalecki, E. F. Schumacher, and T. Balogh. Other

works of note are Sir W. Beveridge, *Full Employment in a Free Society* (Allen & Unwin, 1944), and A. H. Hansen, *Fiscal Policy and Business Cycles* (Norton, 1941) (A), and *Economic Policy and Full Employment* (McGraw-Hill, 1947) (A). A good short survey of this and related fields is that of A. Smithies, 'Federal Budgeting and Fiscal Policy' in *A Survey of Contemporary Economics*, ed. H. S. Ellis (Blakiston, 1948) (A). A contemporary document of importance is *Employment Policy* (Cmd. 6527, 1944).

Inflation is considered more specifically in J. M. Keynes, *How to Pay for the War* (Macmillan, 1940), and in B. Ohlin, *The Problem of Employment Stabilization* (Allen & Unwin, 1950). The pure theory of inflation is clearly of relevance to the subject of fiscal policy. Recent contributions are those of Bent Hansen, *The Theory of Inflation* (Allen & Unwin, 1951), and of R. Turvey, 'The Theory of Inflation in a closed Economy', *E.J.*, Sept. 1951. Both of these contain further references which cannot be detailed here. Contemporary comment on inflationary conditions in Great Britain has been provided, among others, by R. F. Harrod, *Are these Hardships Necessary?* (Rupert Hart-Davis, 1947), and by J. R. Hicks, 'The Empty Economy', *Lloyds Bank Review*, June 1947. See also the Economic Surveys of Europe, prepared by E.C.E., and *Personal Incomes* (Cmd. 7321, 1948).

The international employment implications of fiscal policy have been discussed by Joan Robinson, *Essays in the Theory of Employment*, Part III (Macmillan, 1937), and by Sir W. Beveridge, B. Ohlin, and T. Balogh, loc. cit. Reference should also be made to *National and International Measures for Full Employment* (U.N., 1949), to *Full Employment Objectives in relation to the Problem of European Co-operation* (The Council of Europe, 1951), and to *Measures for International Economic Stability* (U.N., 1952).

The problem of the size of the National Debt in relation to deficit financing is discussed by E. F. Schumacher, loc. cit. For a definitive treatment see E. D. Domar, 'The Burden of the Debt and the National Income', *A.E.R.*, Dec. 1944. See also A. P. Lerner, 'The Burden of the National Debt' in *Income, Employment and Public Policy* (Norton, 1948) (A).

III. THE REVOLUTION IN FISCAL POLICY, AND THE DEVELOPMENT OF NATIONAL INCOME ACCOUNTING

A good account may be found in R. Stone, 'The Use and Development of National Income and Expenditure Estimates' in *Lessons of the British War Economy*, ed. D. N. Chester, N.I.E.S.R. (C.U.P., 1951). See also J. M. Keynes, op. cit., and Beveridge, op. cit. Appendix C by N. Kaldor. (The three routes to full employment discussed in this appendix have received further treatment by R. A. Musgrave, 'Alternative Budget Policies for Employment', *A.E.R.*, June 1945, and by R. L. Bishop, 'Alternative Expansionist Fiscal Policies' in *Income, Employment and Public Policy*. The same routes, but in reverse, have been explored by L. S. Ritter, 'Alternative Anti-Inflationary Fiscal Policies', *R.E.S.*,

1950–1. The procedure of 'gap' estimation may be studied in the Economic Surveys, and in E. F. Jackson, 'The Recent Use of Social Accounting in the United Kingdom' in *Income and Wealth*, Series I, ed. E. Lundberg (Bowes & Bowes, 1951). (This volume also contains information on the use of national income statistics for budgetary purposes in other countries.) The problem of the budgetary and accounting reforms, made desirable by the change in the functions of fiscal policy, is discussed by J. R. Hicks, *The Problems of Budgetary Reform* (O.U.P., 1950) and by D. Seers, 'Social Accounting Today', *O.E.P.*, Feb. 1951, and in the *Crick Committee Report* (Cmd. 7969, 1950).

IV. THE REDISTRIBUTION OF REAL INCOME, AND THE INTERNAL TAX STRUCTURE

For a study of the pre-war redistributory effects of public finance see T. Barna, *The Redistribution of Incomes through Public Finance in 1937* (O.U.P., 1945); for information on the post-war period see D. Seers, *The Levelling of Incomes since 1938* (Blackwell, 1951) and Findlay Weaver, 'Taxation and Redistribution in the United Kingdom', *Rev. Ec. Stat.*, Aug. 1950. The distribution of private capital has recently been analysed by K. M. Langley, 'The Distribution of Capital in Private Hands in 1936–8 and 1946–7', *Bull. Inst. Stat.*, Dec. 1950 and Feb. 1951.

The classical principles of taxation may be studied in standard works on public finance. A recent theoretical article is I. M. D. Little, 'Direct *versus* Indirect Taxes', *E.J.*, Sept. 1951, where further references may be found. Purchase tax in relation to exports is discussed in H. P. Barker and R. F. Kahn, 'Home and Export Trade', *E.J.*, June 1951. F. Shirras and L. Rostas, *The Burden of British Taxation*, N.I.E.S.R. (C.U.P., 1942), contains an account of the British pre-war tax structure.

Local taxation may be studied in U. K. Hicks, *Public Finance* (C.U.P., 1947), and at greater length in J. R. and U. K. Hicks, *The Standards of Local Expenditure*, N.I.E.S.R. (C.U.P., 1943), *The Problems of Valuation for Rating*, N.I.E.S.R. (C.U.P., 1944), and *The Incidence of Local Rates*, N.I.E.S.R. (C.U.P., 1945).

For a brief account of capital levies see J. E. Meade, *Planning and the Price Mechanism* (Allen & Unwin, 1948), and also S. P. Chambers 'The Capital Levy', *Lloyds Bank Review*, Jan. 1951. The subject may be further pursued in the *Colwyn Committee Report* (H.M.S.O., Cmd. 2800, 1927) and in J. R. Hicks, U. K. Hicks, and L. Rostas, *The Taxation of War Wealth* (O.U.P., 1943).

V. SUBSIDIES AND INCENTIVES

Subsidies are briefly discussed by W. A. Lewis, *The Principles of Economic Planning* (Dobson, 1949), chaps. ii and v, and by J. E. Meade, op. cit., chap. iii. For a fuller treatment see A. C. Pigou, 'The Food Subsidies', *E.J.*, June 1948, and T. Balogh, 'The Abolition of the Food Subsidies', *Bull. Inst. Stat.*, Oct. 1948. For more recent analysis of the

subsidies see *The Economist*, 15 Apr. 1950 and 1 Dec. 1951. See also Seebohm Rowntree and G. R. Lavers, *Poverty and the Welfare State* (Longmans, 1951). Most of the above discussions are also concerned with incentives, but reference may also be made to F. W. Paish, 'Economic Incentive in Wartime', in *The Post-war Financial Problem* (1950), also in *Economica*, Aug. 1941; also to T. Balogh and F. Burchardt, 'Taxation in the Transition Period', *Bull. Inst. Stat.*, July 1945, and to S. P. Chambers, 'Taxation and Incentives', *Lloyds Bank Review*, Apr. 1948. A. E. C. Hare, 'The Theory of Effort and Welfare Economics', *Economica*, Feb. 1951, is also relevant.

For a discussion of the disincentive effect of taxation on investment see M. Kalecki, loc. cit., and T. Balogh, 'Taxation, Risk Bearing and Investment', *Bull. Inst. Stat.*, Sept. 1945. This question is closely associated with the proper definition of profits for taxation purposes, a problem brought into prominence by recent inflationary conditions. On this see P. Wiles, 'Corporate Taxation and Depreciation', *Bull. Inst. Stat.*, Apr. 1950, where further references may be found; see also the *Report of the Committee on the Taxation of Trading Profits* (Cmd. 8189, 1951).

VI. TARIFFS AND PROTECTION

Aside from standard works on international trade, which should be consulted, the following theoretical discussions may be mentioned: P. A. Samuelson, 'The Gains from International Trade', *C.J.E.P.S.*, 1939; W. F. Stolper and P. A. Samuelson, 'Protection and Real Wages', *R.E.S.*, 1941; T. de Scitovszky, 'A Reconsideration of the Theory of Tariffs', *R.E.S.*, 1942 (all the above are reprinted in *Readings in the Theory of International Trade* (Blakiston, 1949) (A); R. F. Kahn, 'Tariffs and the Terms of Trade', *R.E.S.*, 1947–8; I. M. D. Little, *A Critique of Welfare Economics* (O.U.P., 1950), chap. viii; J. de V. Graaff, 'On Optimum Tariff Structures', *R.E.S.*, 1949–50. The last-mentioned provides a definitive treatment of the 'welfare' aspect of the subject.

MONETARY POLICY AND BANKING DEVELOPMENTS (Chapters IX and X)

I

1. *Books*

R. S. Sayers, *Modern Banking* (O.U.P., 1951), especially chap. 8.

W. Manning Dacey, *The British Banking Mechanism* (Hutchinson's University Library, 1951).

Institute of Bankers, *Current Financial Problems and the City of London* (European Publications, 1950).

2. *Articles*

H. G. Johnson, C. M. Kennedy, and others, 'Symposium on Monetary Policy', *Bull. Inst. Stat.*, Apr.–May 1952.

F. W. PAISH, 'Cheap Money Policy', *Economica*, vol. xiv, Aug. 1947. Reprinted in Paish, *The Post-war Financial Problem* (Macmillan, 1950).

H. G. JOHNSON, 'Some Implications of Secular Changes in Bank Assets and Liabilities in Great Britain', *E.J.*, vol. lxi, Sept. 1951.

There are regular articles, too numerous to list, on all aspects of monetary policy and institutions in: *The Economist*, *The Banker*, *Lloyds Bank Review*, *Midland Bank Review*, *Westminster Bank Review*, *The Three Banks Review*, and *District Bank Review*.

II

1. *For Pre-war Background*

Committee on Finance and Industry (Macmillan Report. H.M.S.O., Cmd. 3897, 1931).

J. M. KEYNES, *A Treatise on Money* (Macmillan, 1930).

—— *The General Theory of Employment, Interest and Money* (Macmillan, 1936).

U. K. HICKS, *Finance of British Government 1920–1936* (O.U.P., 1938).

2. A useful collection of statistical material relating to the government debt is to be found in *British Government Securities in the Twentieth Century* (Pember and Boyle, 1950).

3. The role of monetary policy in post-war conditions is discussed in:

R. F. HARROD, *Are These Hardships Necessary?*, chap. iii (Rupert Hart-Davis, 1947).

SIR HUBERT HENDERSON, 'Cheap Money and the Budget', *E.J.*, vol. lvii, Sept. 1947.

J. R. HICKS, 'World Recovery After War—a Theoretical Analysis', *E.J.*, vol. lvii, June 1947.

The Economist, 'The Case for Monetary Policy' (three articles), vol. clx, 5, 12, 19 May 1951.

4. The effects of interest rates on business decisions are discussed in:

H. D. HENDERSON, 'The Significance of the Rate of Interest', *O.E.P.*, No. 1, Oct. 1938.

J. E. MEADE and P. W. S. ANDREWS, 'Summary of Replies to Questions on Interest Rates', ibid.

R. S. SAYERS, 'Business Men and the Terms of Borrowing', ibid., No. 3, Feb. 1940.

P. W. S. ANDREWS, 'A Further Inquiry into the Effects of Rates of Interest', ibid.

(The above four articles have been reprinted, together with a further article by Sayers, in *Oxford Studies in the Price Mechanism* (O.U.P., 1951), by T. Wilson and P. W. S. Andrews (editors).

D. H. ROBERTSON, 'Interest Rates', *Three Banks Review*, No. 1, 1949.

5. *Other References*

B. C. Hallowell, *A Study of British Interest Rates, 1929–50* (Connecticut General Life Insurance Company, 1950) (A).

D. H. Robertson, *Money* (C.U.P., 1948).

Joan Robinson, 'The Rate of Interest', *Econometrica*, vol. xix, Apr. 1951 (A).

MANPOWER (Chapter XI)

Report of the Royal Commission on the Distribution of the Industrial population (Cmd. 6153, 1940).

Employment Policy (Cmd. 6527, 1944).

Economic Survey for each year 1947–51.

Ministry of Labour Gazette.

Distribution of Industry (Cmd. 7540, 1948).

W. K. Hancock and M. M. Gowing, *British War Economy* (H.M.S.O., 1948).

Studies in War Economics, Oxford Institute of Statistics (Blackwell, 1947).

H. W. Robinson, 'The Response of Labour to Economic Incentives', *Oxford Studies in the Price Mechanism*, chap. vi (a full bibliography of the pre-war Oxford Inquiry is given by Dr. Robinson).

C. A. R. Crossland, 'The Movement of Labour in 1948', *Bull. Inst. Stat.*, May 1949.

A. Flanders, 'Wages Policy and Full Employment', ibid., July–Aug. 1950.

K. G. J. C. Knowles and D. J. Robertson, 'Earnings in Engineering' and 'Earnings in Shipbuilding', ibid., June 1951, July 1951, Nov.–Dec. 1951. Also by the same authors, 'Differences between Wages of Skilled and Unskilled Workers', ibid., Apr. 1951.

S. R. Dennison, 'Wages in Full Employment', *Lloyds Bank Review*, Apr. 1950.

E. H. Phelps Brown and B. C. Roberts, 'Wages Policy in Great Britain', ibid., Jan. 1952.

T. Wilson, 'Programmes and Allocations in the Planned Economy', *O.E.P.*, Jan. 1948.

—— *Modern Capitalism and Economic Progress* (Macmillan, 1950).

LOCATION OF INDUSTRY (Chapter XII)

PRE-WAR AND GENERAL

Official

Special Area Acts, 1934–7.

Report of the Royal Commission on the Distribution of the Industrial Population (Cmd. 6153, 1940. Barlow Report).

Report of the Committee on Land Utilization in Rural Areas (Cmd. 6378, 1942. Scott Report).

Reports of the Commissioners for the Special Areas.

Other

E. Hoover, *Location of Economic Activity* (McGraw-Hill, 1948) (A).

P.E.P., *Location of Industry* (1939).

S. R. Dennison, *Location of Industry and the Depressed Areas* (O.U.P., 1939).

M. P. Fogarty, *Prospects of the Industrial Areas of Great Britain* (Methuen, 1945), especially pp. 460 ff. on administration.

—— *Plan Your Own Industries* (the work of local and regional development councils) (Blackwell, 1947).

POST-WAR

Official

White Paper on the *Distribution of Industry* (Cmd. 7540, 1948).

Select Committee on Estimates, Session 1946–7. Report on the Administration of Development Areas.

Monthly Digest of Statistics. New Factory Buildings in Great Britain.

Town and Country Planning, 1943–51, Progress Report (Cmd. 8204, 1951).

M. P. Newton, and J. R. Jeffery, *Internal Migration* (H.M.S.O., 1951).

Distribution of Industry Acts, 1945 and 1950.

Town and Country Planning Act, 1947, especially Section 14, paragraph 4.

New Towns Act, 1946.

Local Government Act, 1948 (provision for equalizing financial resources between areas).

(See also the various official regional plans, e.g. for London, South Wales, the North-east Coast, Merseyside, Manchester.)

Other

Studies in the press by:

L. N. Hopper, on the history of the development area policy in South Wales.

W. F. Luttrell, on the costs of alternative locations, or opening new plants, as shown by recent British experience.

T. Eastwood, *Industry in the Country Towns of Norfolk and Suffolk* (1951).

A. Beacham, *Industry in the Welsh Country Towns* (1951).

D. L. Munby, *Industry and Planning in Stepney* (1951).

M. P. Fogarty, *Town and Country Planning* (1948).

Articles by:

M. P. Fogarty, *M.S.*, Sept. 1947; *Marketing Survey* (1951), *Report of Town and Country Planning Summer School* (1950).

J. Sykes, *M.S.*; *Economic Journal; L.C.E.S.*

DIRECT CONTROLS (Chapters VII and XIII)[1]

GENERAL WORKS

1. *The First World War.* The best sources are the Carnegie Economic and Social Histories of the War. Of these E. M. H. Lloyd's *Experiments in State Control* (O.U.P., 1924) is a brilliant book. Not only does it describe the working of the war-time controls but it also contains a most penetrating critique of contemporary economic theory, anticipating the theories of imperfect competition of the middle thirties. Other volumes in the series include: Humber Wolfe, *Labour Supply and Regulation*; W. H. Beveridge, *British Food Control*; J. A. Salter, *Allied Shipping Control*; G. D. H. Cole, *Trade Unionism and Munitions*; and H. D. Henderson, *The Cotton Control.*

A. C. Pigou's *Political Economy of War* (1919, re-issued Macmillan, 1945) and E. Cannan, *An Economist's Protest* (P. S. King, 1927) are still of interest.

2. *1919–39.* W. A. Lewis, *Economic Survey 1919–39* (Allen & Unwin, 1949); U. K. Hicks, *Finance of British Government 1923–36* (O.U.P., 1938); R. F. Bretherton, F. A. Burchardt, and R. S. G. Rutherford, *Public Investment and the Trade Cycle in Great Britain* (O.U.P., 1940); *Trade Regulations and Commerical Policy of the U.K.*, N.I.E.S.R. (C.U.P., 1943); and H. W. Arndt, *Economic Lessons of the Nineteen Thirties* (O.U.P., 1944), deal with various aspects of government intervention in the inter-war years.

A. C. Pigou, *Aspects of British Economic History* (Macmillan, 1947) and R. H. Tawney, 'The Abolition of Economic Controls', *Economic History Review* (1943), describe the years immediately following the end of the First World War. The first Report of the E.C.E., *Economic Situation and Prospects of Europe* (1948) contains a valuable comparison of economic recovery in Europe after 1918 and after 1945.

For the 1920's see H. Clay, *The Post-War Unemployment Problem* (Macmillan, 1929); 'Liberal Industrial Enquiry', *Britain's Industrial Future* (1928); J. M. Keynes, *The End of Laissez-Faire* (Hogarth Press, 1926); and the *Committee on Finance and Industry* (Macmillan Report. Cmd. 3897, 1931). It is interesting to compare the *Committee on Industry and Trade* (Balfour Report. Cmd. 3282, 1928) with the numerous post-1945 industrial studies and reports.

The growing intervention in the thirties can be studied in: H. W. Arndt, op. cit.; A. F. Lucas, *Industrial Reconstruction and the Control of Competition* (Longmans, 1937); F. Benham, *Great Britain under Protection* (Macmillan, 1941); W. A. Robson (ed.), *Public Enterprise* (Allen & Unwin, 1937); L. Gordon, *The Public Corporation in Great Britain* (O.U.P., 1938); British Association Research Committee, *Britain in Depression* (Pitman, 1935); and *Britain in Recovery* (Pitman, 1938); and in numerous other books.

3. *The Second World War.* W. K. Hancock and M. M. Gowing, *The British War Economy* (H.M.S.O., 1949), is the first of the official war histories to appear. W. H. B. Court, *Coal* (1951), and R. J. Hammond, *Food*

(1951), have also been published. Later volumes in this series will deal, among other things, with various direct controls. D. N. Chester (ed.), *Lessons of the British War Economy*, N.I.E.S.R. (C.U.P., 1951), contains a number of essays on controls by economists who, during the war, were engaged in their administration. Institute of Statistics, *Studies in War Economics* (Blackwell, 1947), reprints a number of articles on controls written during the war.

4. *Post-1945*. No authoritative study of controls since 1945 has yet appeared. A number of pre-eminently theoretical discussions of economic planning have been published (see the bibliography for Chapter XV on 'Machinery of Government and Planning'); F. Jervis, *Price Control* (Hutchinson, 1949), is written from an extremist *laissez-faire* point of view, but contains useful information.

SPECIAL TOPICS AND SOURCES

To find out about the working of various controls it is still necessary to go to official reports. For the war years the reports of the Select Committee on National Expenditure (especially Fourteenth Report, *War Production: Methods of Settling Prices for War Stores*, 1943) and for the post-war years the reports of the Select Committee on Estimates (especially Seventh Report: *The Timber Control*, 1950) are particularly valuable sources. The Reports and Minutes of Evidence of the Committee of Public Accounts also contain much relevant material. The *Report of the Committee on Purchase Tax and Utility Goods* (Douglas Report, 1952) contains a full account of the Utility schemes during and since the war. Government policy with respect to controls is set out briefly in the White Paper *Employment Policy* (1944), and the first annual *Economic Survey* (1947).

Articles by E. L. Hargreaves, 'Price Control of (non-food) Consumer Goods', and H. Smith, 'Reflections on War-time Control of Prices', *O.E.P.*, No. 8, 1947, and G. D. N. Worswick and K. Martin, 'Prices and Wages Policy', *Bull. Inst. Stat.*, vol. x, no. 3, Mar. 1948, deal with the principles and practice of price control during and since the war. For raw-material control see articles by I. Bowen, G. D. N. Worswick, C. J. Hitch, and A. Briggs in *O.E.P.*, No. 4, 1940; No. 6, 1942; and No. 8, 1947. See also articles on 'Cotton', by R. W. Lacey and W. Hubball, *M.S.S.*, Session 1946–7, and H. E. Wadsworth, *M.S.S.*, Session 1948–9. The pure theory of rationing is discussed in G. D. N. Worswick, 'Points, Prices and Consumers' Choice', *Studies in War Economics*, op. cit.; K. W. Rothschild, 'Rationing and the Consumer', *O.E.P.*, No. 7, 1945, and C. F. Carter, 'The Dual Currency Problem', *E.J.*, Dec. 1948.

F. A. Burchardt and G. D. N. Worswick, 'Britain in Transition', *Bull. Inst. Stat.*, Mar.–Apr. 1947, is an analysis of the post-war economic problems of Britain and the role of direct controls. Bent Hansen, *The Theory of Inflation* (Allen & Unwin, 1951), is the best purely theoretical treatment of excess demand and controls.

PERSONAL INCOME POLICY (Chapter XIV)

The best statistical account of changes in personal incomes since the war is D. Seers, *The Levelling of Incomes since 1938* (Blackwell, 1951). See also T. Barna, 'Those "Frightfully High" Profits', *Bull. Inst. Stat.*, July–Aug. 1949.

There are primarily theoretical discussions of wages and prices in J. M. Keynes, *How to Pay for the War* (Macmillan, 1940), B. Hansen, *The Theory of Inflation* (Allen & Unwin, 1951), and G. D. N. Worswick, 'Stability and Flexibility of Full Employment' in *Economics of Full Employment* (Blackwell, 1944). *Wages Policy Under Full Employment*, edited by R. Turvey (Hodge, 1952), contains translations of a number of studies of the problem by Swedish economists. For a discussion of the connexion between devaluation and wage and price levels, see Sir Hubert Henderson, 'The Function of Exchange Rates', *O.E.P.*, New Series, No. 1. There is a discussion of the ethical and political issues involved in B. de Jouvenel, *The Ethics of Redistribution* (C.U.P., 1951), and in *New Fabian Essays* (Turnstile, 1952).

The *Statement on Personal Incomes*, Cmd. 7321, is reprinted in the *Economic Survey for 1948*, Cmd. 7344. There is a full account of the subsequent developments until 1950 in A. Flanders, *A Policy for Wages* (Fabian Publications, 1950). The principal events in 1945–50 are described in *Bull. Inst. Stat.*, July–Aug. 1950, in an article by A. Flanders (this issue also contains accounts of wage policies in Norway and the Netherlands), F. A. Burchardt and G. D. N. Worswick, 'Britain in Transition', *Bull. Inst. Stat.*, Mar.–April 1947, and G. D. N. Worswick and K. Martin, 'Prices and Wages', *Bull. Inst. Stat.*, Mar. 1948. All the above articles tend in favour of some sort of wages policy. For the case against, see H. W. Singer, 'Wage Policy in Full Employment', *E.J.*, Dec. 1947, and E. H. Phelps Brown and B. C. Roberts, 'Wages Policy in Great Britain', *Lloyds Bank Review*, Jan. 1952.

MACHINERY OF GOVERNMENT AND PLANNING (Chapter XV)

Note: Most of the descriptive literature is about either the experiences of 1939–45 or the first two or three years of Mr. Attlee's Administration. While much of the machinery and ideas so described is also applicable to 1949–51 there were significant changes both in the concept and in the carrying out of economic planning which make some of the early writings largely of historical value.

War-time Machinery

D. N. Chester (ed.), *Lessons of the British War Economy* (C.U.P., 1951).

W. K. Hancock and M. M. Gowing, *British War Economy* (H.M.S.O., 1949).

E. Devons, *Planning in Practice*: Essays in Aircraft Planning in Wartime, (C.U.P., 1950).

Post-war Economy

FRANCIS WILLIAMS, *The Triple Challenge* (Heinemann, 1948).

SIR EDWARD E. BRIDGES, *Treasury Control* (Stamp Memorial Lecture, Athlone Press, 1950).

SIR JOHN ANDERSON, *The Organization of Economic Studies in Relation to the Problems of Government* (Stamp Memorial Lecture, O.U.P., 1947).

H. R. G. GREAVES, *The Civil Service in the Changing State* (Harrap, 1947).

ROBERT A. BRADY, *Crisis in Britain* (University of California and C.U.P., 1950), especially chap. xii.

Articles

HERMAN FINER, 'Planning and Nationalization in Great Britain', *International Labour Review*, vol. lvii, Nos. 3 and 4, 1948.

HERBERT MORRISON, 'Economic Planning', *Public Administration*, Spring, 1947. (Also published separately by the Institute of Public Administration.)

SIR JOHN ANDERSON, 'The Machinery of Government', *Public Administration*, Autumn 1946. (Also published separately as the Romanes Lecture, O.U.P., 1946.)

S. C. LESLIE, 'Work of the Economic Information Unit', *Public Administration*, Spring 1950.

T. WILSON, 'Programmes and Allocation in the Planned Economy', *O.E.P.*, vol. i, No. 1, Jan. 1949.

E. DEVONS, 'Economic Planning in War and Peace', *M.S.*, Jan. 1948.

R. S. MILNE, 'Labour and the Planning Organization', *Political Quarterly*, vol. xxiii, No. 2, 1952.

Government Publications

The Economic Surveys for 1947–51: 1947 (Cmd. 7046); 1948 (Cmd. 7344); 1949 (Cmd. 7647); 1950 (Cmd. 7915); 1951 (Cmd. 8195).

Government and Industry. A Survey of Machinery for Consultation and Co-operation (1948).

General Discussions of Economic Planning.

SIR OLIVER FRANKS, *Central Planning and Control in War and Peace* (London School of Economics, Longmans Green & Co., 1947).

SIR HUBERT HENDERSON, *Uses and Abuses of Economic Planning* (Rede Lecture, C.U.P., 1947).

JOHN JEWKES, *Ordeal by Planning* (Macmillan, 1948).

LIONEL ROBBINS, *The Economic Problem in Peace and War* (Macmillan, 1947).

BARBARA WOOTTON, *Freedom under Planning* (Allen & Unwin, 1945).

F. A. HAYEK, *Road to Serfdom* (Routledge, 1944).

E. F. M. DURBIN, *Problems of Economic Planning* (Routledge, 1949).

W. A. LEWIS, *The Principles of Economic Planning* (Dobson, and Allen & Unwin, 1949).

J. E. MEADE, *Planning and the Price Mechanism* (Allen & Unwin, 1948).

SOCIAL SERVICES (Chapter XVI)

The general background of British social services has been described in many books, both from an historical and an administrative point of view. A useful short introduction is provided in E. W. Cohen, *English Social Services, Methods and Growth* (Allen & Unwin, 1949). See also W. H. Wickwar, *The Social Services* (Cobden & Sanderson, 1936). The historical development is traced by F. Lafitte, *Britain's Way to Social Security* (Pilot Press, 1945), and by K. de Schweinitz, *England's Road to Social Security* (University of Pennsylvania Press, 1943 and O.U.P., 1944). Two more detailed historical studies are R. W. Harris, *National Health Insurance, 1911–46* (Allen & Unwin, 1946), and F. Tillyard and F. N. Ball, *Unemployment Insurance in Great Britain, 1911–48* (Thames Bank, 1949). A useful pamphlet for the survey of the whole background has been written by Mark Abrams, 'The Welfare State', *Current Affairs*, No. 124.

In a stimulating inaugural lecture, *Social Administration in a Changing Society*, reprinted in *The British Journal of Sociology*, vol. ii, No. 3, Sept. 1951, Professor Titmuss has stressed the two aspects of a study of the social services—on the one hand, the study of the machinery of administration which organizes and disperses various forms of social assistance; on the other hand, an examination of the lives, the needs, and the mutual relations of those members of the community for whom the services are provided.

Most of the literature is concerned with the first branch of study.

The British social services were reviewed comprehensively in 1937 by P.E.P., which published a large-scale *Report on the British Social Services*. It also published a *Report on the British Health Services* in the same year. There has been no comparable post-war survey in the period of re-shaping, but an outline of present services is given in recent editions of two booklets prepared by the National Council of Social Service—*Public Social Services* (1950) and *Voluntary Social Services* (1948). See also D. C. Marsh, *National Insurance and Assistance in Great Britain* (Pitman, 195[illegible]). The Central Office of Information has published *The British System of National Insurance and Allied Security Services* (1951) and *Health Services in Britain* (1951). They are the latest of a series of publications on similar themes, and include reading lists for further study.

The war-time background of social advance has not yet been comprehensively explored, but R. M. Titmuss, *Problems of Social Policy, History of the Second World War*, Civil Series (H.M.S.O. and Longman's, 1950), is far more than an account of evacuation, hospital services, and the care of homeless people. It treats these central topics skilfully and authoritatively against the background of the established social services.

The increasing private and official interest in the post-war re-shaping of the social services can be traced in the following publications: *Social Insurance and Allied Services* (Cmd. 6404, 1942); *Memoranda from Organizations* (Cmd. 6405, 1942); Sir Ronald Davison, *Social Security, the Story of British Social Progress and the Beveridge Plan* (Harrap, 1943);

A National Health Service (Cmd. 6502, 1944); *Educational Reconstruction* (Cmd. 6458, 1943); *Social Insurance*, Part I (Cmd. 6550, 1944); *Social Insurance*, Part II, *Workmen's Compensation, Proposals for an Industrial Insurance Scheme* (Cmd. 6551, 1944); *Social Security*, ed. W. A. Robson (Allen & Unwin, 1943), also revised edition, 1948; *Social Insurance, Brief Guide to the Government's Plan* (1944). The insurance element in national insurance schemes is discussed by A. T. Peacock in The Finance of British National Insurance in *Public Finance*, No. 3, 1950.

The major Acts of Parliament are examined, often in technical detail, by C. E. Clarke, *Social Insurance in Great Britain* (C.U.P., 1950); T. S. Newman, *Digest of British Social Insurance* (Stone & Cox, 1947); D. Potter and H. D. Stansfield, *National Insurance* (Butterworth, 1949); R. D. Steele, *The National Assistance Act* (Butterworth, 1948); R. Ormrod and H. Walker, *The National Health Service* (Butterworth, 1950); S. R. Speller, *The National Health Service Act* (Lewis, 1948); C. Hill and J. Woodcock, *The National Health Service* (Johnson, 1949); A. C. L. Morrison and others, *The Children Act*, 1948 (H.M.S.O. 1948); H. C. Dent, *The New Education Act* (University of London Press, 1944); A. E. Ikin, *The Education Act* (Pitman, 1944); B. J. Cowen and M. M. Towy-Evans, *Working Conditions and Employee Services* (1950).

Some of the practical economic and administrative problems involved in the working of the new social services are discussed in the Annual Reports of the Ministry of Education, especially *Education in 1949* (Cmd. 7957, 1950); P.E.P., 'Councils and their Schools', *Planning*, vol. xv, Nos. 267, 288; 'The National Health Service Act in Great Britain, a Review of the First Year's Working', *The Practitioner*, 1949; L. J. Edwards, 'Building a Health Service', *Public Administration*, vol. xxvi, 1948; A. Q. Wells, 'The Hospital Services', ibid., vol. xxix, 1951; P.E.P., 'The Hospital Service', *Planning*, vol. xvi, Nos. 303, 309; *Report of the Medical Research Council for 1945–8* (Cmd. 7846, 1949); *The Administration of the National Health Services*, a Report of the Select Committee on Estimates (1949); *Report of the Ministry of National Insurance, 1944–9* (Cmd. 7955, 1950). Housing issues are analysed in P.E.P., 'Councils and their Tenants', *Planning*, vol. xiv, No. 282; 'Assessment of Housing Needs', ibid., vol. xvi, No. 293: 'Housing Policy Abroad', ibid, No. 299; Rent Control Policy', ibid., No. 305: 'Economics of the Council House', ibid., vol. xvii, No. 308: 'A New Policy for Housing Subsidies', ibid., No. 312; 'Thirty-five Years of Rent Control', *The Westminster Bank Review*, No. 44, 1949.

The practical aspects of the national and local development of social services can best be traced in *Social Service*, a quarterly survey published by the National Council of Social Service. There is also much useful practical information in local publications such as *Social Welfare*, the magazine of the Manchester and Salford Council of Social Service, and in professional journals.

For the role of voluntary organizations in the British social service system, see Lord Beveridge, *Voluntary Action* (Allen & Unwin, 1948), and *The Evidence for Voluntary Action*, ed. Lord Beveridge and A. F.

Wells (Allen & Unwin, 1948). Part VII of the second of these two volumes is a select bibliography on 'Voluntary Action'. See also *Voluntary Social Services*, ed. A. F. Bourdillon (Methuen, 1945); *Voluntary Social Services since 1918*, ed. G. Williams (Routledge, 1948); J. Moss, *Voluntary Organization and the National Assistance Act* (1948).

The necessity of extended research in social studies as a guide to social policy has been recently stressed in various publications, particularly P.E.P., *Planning*, vol xvii, Nos. 321, 323; *Government Aid for the Social Sciences* (Cmd. 6868, 1946), Report of the Committee on the Provision for Social and Economic Research; D. V. Glass, 'The Application of Social Research', *The British Journal of Sociology*, vol. i, No. 1, 1950.

The study of the lives and needs of members of the community in relation to the provision of social services has been carried out by the authors of the following books. B. Seebohm Rowntree, *The Human Needs of Labour* (Longmans, 1937), *Poverty and Progress* (Longmans, 1941), *Old People* (1947), *Poverty and the Welfare State* (Longmans, 1951); G. Williams, *The State and the Standard of Living* (King, 1936); and E. Rathbone, *Family Allowances* (Allen & Unwin, 1949).

PRODUCTIVITY (Chapter XVII)

I. BASIC READING

L. ROSTAS, *Comparative Productivity in British and American Industry*, N.I.E.S.R. (C.U.P., 1948).

C. CLARK, *Conditions of Economic Progress*, 2nd edition (Macmillan, 1951).

A. J. BROWN, *Applied Economics* (Allen & Unwin, 1947), especially chap. 5.

E. ROTHBARTH, 'Causes of Superior Efficiency of American Industry', *E.J.*, Sept. 1946.

J. JEWKES, 'Is British Industry Inefficient?', *M.S.* Jan. 1946.

E. C. SNOW, 'The International Comparisons of Industrial Output', *J.R.S.S.*, 1947.

H. W. ARNDT, 'Productivity in Manufacturing and Real Income per head', *O.E.P.*, No. 8, 1946.

II. GENERAL

L. ORD, *Secrets of Industry* (Allen & Unwin, 1944).

'A Policy for Wealth', *The Economist*, 19 Aug.–14 Oct. 1944.

Anglo-American Productivity Team Reports. (Of these the most interesting are the Steel Founding Report, the Report of the Management Accounting Team, and the Trades Union Congress Report.)

III. STATISTICAL. See Rostas, Jewkes, Snow, op. cit.

EVANS and SIEGEL, 'The Meaning of Productivity Indexes', *J.A.S.A.*, Mar. 1942.

H. MAYDOFF, 'The Purpose and Method of Measuring Productivity', ibid., June 1939.

CARTER, REDDAWAY, and STONE, *The Measurement of Production Movements* (C.U.P., 1948).
T. BARNA, 'Note on the Productivity of Labour: its Concept and Measurement', *Bull. Inst. Stat.*, vol. viii, No. 7, 1946.
D. WEINTRAUB, 'Some Measures of Changing Labour Productivity and their use in Economic Analysis', *J.A.S.A.*, Mar. 1938.

NATIONALIZED INDUSTRY (Chapter XIX)

ESSENTIAL READING

W. A. ROBSON (ed.), *Public Enterprise* (Allen & Unwin, 1937).
D. N. CHESTER, *The Nationalized Industries*, a statutory analysis (Allen & Unwin, 2nd edition, 1951). (This also contains a Note on Price Policy, and a Bibliography.)
Political Quarterly, April–June, 1950, containing the following articles: D. N. CHESTER, 'Organization of the Nationalized Industries'; W. A. ROBSON, 'The Governing Board of the Public Corporation'; ERNEST DAVIES, 'Ministerial Control and Parliamentary Responsibility of Nationalized Industries'; G. D. H. COLE, 'Labour and Staff Problems under Nationalization'; J. A. G. GRIFFITHS, 'The Voice of the Consumer'; W. A. LEWIS, 'The Price Policy of Public Corporations'; P. SARGANT FLORENCE and GILBERT WALKER, 'Efficiency under Nationalization and its Measurement'.
G. J. WALKER, 'The Transport Act, 1947', *E.J.*, Mar. 1948.
H. S. HOUTHAKKER, 'Electricity Tariffs in Theory and Practice', ibid., Mar. 1951.
W. H. B. COURT, *Coal* (H.M.S.O., 1951).

SELECTED FURTHER READING

General Works

(1) *Pre-war*

HERBERT MORRISON, *Socialiation and Transport* (Constable, 1933).
TERENCE O'BRIEN, *British Experiments in Public Ownership and Control* (Allen & Unwin, 1937).
LINCOLN GORDON, *The Public Corporation in Great Britain* (O.U.P., 1938).
ERNEST DAVIES, *National Enterprise* (Gollancz, 1946).

(2) *Post-war*

The only full treatment of post-war nationalized industry is contained in several chapters of Robert Brady, *Crisis in Britain* (University of California Press, 1950). It should be used only with great caution.

Organization and Administration

SIR ARTHUR STREET, *The Public Corporation in British Experience* (Institute of Public Administration, 1947).

SIR ARTHUR STREET, 'Quasi-Government Bodies since 1918' in *British Government since 1918* (Allen & Unwin, 1950).
The Acton Society Trust, *The Extent of Centralization*, Studies in Nationalized Industry, Nos. 6 and 7, 1951.
—— *The Men on the Boards*, ibid., No. 4, 1951.

Consumers Councils

The Annual Reports of the Councils to Ministers are published.
J. W. GROVE, 'Consumer Councils for Gas and Electricity', *Public Administration*, Autumn, 1950.
L. FREEDMAN and G. HEMINGWAY, *Nationalization and the Consumer* (Fabian Publications, 1950).

Planning and Prices

National Coal Board, *Plan for Coal* (1950).
DUNCAN BURN, 'The National Coal Board', *Lloyds Bank Review*, 1951.
A. M. MILNE, 'Passenger Road Transport and the Transport Act 1947', *E.J.*, June 1951.

There has been a widespread controversy over many years concerning the determination of prices in public undertakings; the reader is referred to:

I. M. D. LITTLE, *A Critique of Welfare Economics* (O.U.P., 1950).
A. LERNER, *The Economics of Control* (Macmillan, 1944).
W. A. LEWIS, *Overhead Costs* (Allen & Unwin, 1949).
A. M. HENDERSON, 'The Pricing of Public Utility Undertakings', *M.S.*, No. 3, 1947.

Labour Relations

The Acton Society Trust, *The Future of the Unions*, Studies in Nationalized Industry, No. 8. 1951.
—— *Training and Promotion in Nationalized Industry* (Allen & Unwin, 1951).
FRANK PICKSTOCK, *British Railways—The Human Problem* (Fabian Publications, 1950).
H. A. CLEGG, *Labour Relations in London Transport* (Blackwell, 1950).
—— *Industrial Democracy and Nationalization* (Blackwell, 1951).
FRANK GILBERT, *Transport Staff Relations* (Pitman, 1951).

Individual Industries

Coal: TOWNSEND-ROSE, *The British Coal Industry* (Allen & Unwin, 1951).
Transport: LORD HURCOMB, 'The Development of the Organization of the Transport Commission', *Public Administration*, Autumn, 1950.
Air Transport: JOHN LONGHURST, *Nationalization in Practice* (Temple Press, 1950).
B.B.C.: R. H. COASE, *British Broadcasting. A Study in Monopoly* (London School of Economics, 1950).

Electricity: SIR HENRY SELF, 'Organization of the British Electricity Authority', *Public Administration*, Spring, 1949.

The boards give a full account of their work in their Annual Reports, which include much statistical information:

The following reports are also useful:

McGowan Committee Report on Electricity Distribution (1936–7).
Reid Committee Report on the Coal Industry (Cmd. 6610, 1945).
Heyworth Report on the Gas Industry (Cmd. 6699, 1945).
Beveridge Committee Report on Broadcasting (Cmd. 8116 and 8117, 1951).

AGRICULTURE (Chapter XXI)

PART I

SIR JOHN RUSSELL (ed.), *Agriculture To-day and To-morrow* (Michael Joseph, 1945).

D. N. CHESTER (ed.), *Lessons of the British War Economy* (C.U.P., 1951). (Chap. xiii and chap. xiv will assist in the understanding of post-war agricultural developments.)

JOHN F. PHILLIPS, *The Agriculture Act, 1947* (Spon and Eyre & Spottiswoode, 1948).

Ministry of Agriculture and Fisheries, *Farm Incomes in England and Wales, 1944–5 to 1947–8. A Report based on the Farm Management Survey* (H.M.S.O., 1950).

J. R. RAEBURN, 'The Food Economy of the U.K. in Relation to International Balance of Payment Problems', *J.P.A.E.S.*, vol. viii, No. 1, June, 1948.

C. H. BLAGBURN, 'Import Replacement by British Agriculture', *E.J.*, vol. lx, No. 237, Mar. 1950.

E. THOMAS, 'The Machinery of Forward Price-fixing in British Agriture', *Proceedings of 7th International Conference of Agricultural Economists* (O.U.P., 1950)

G. P. WIBBERLEY, 'Changes in Agriculture and their Effect on the Countryside', *Report of Town and Country Planning Summer School, 1950* (Town Planning Institute, 1951). (Also reprinted in *Journal of Land Agents' Society*, Nov. 1950.)

Westminster Bank Review. From May 1947 to Nov. 1951 this quarterly review published a series of articles contributed by the Agricultural Economics Research Institute, University of Oxford. The articles deal with many aspects of agriculture, including the cost of expansion; stability and efficiency; marketing schemes; prices paid to farmers; farm incomes, rents, and land values; mechanization; manpower; the farmers' co-operative movement; and reviews of particular agricultural industries such as the dairy industry and the livestock and beef industries.

PART II

Articles

J. R. RAEBURN, 'The Performance and Prospects of British Agriculture', *L.C.E.S.*, vol. xxviii, No. 1, Feb. 1950.

G. CROWTHER, 'An Economist's View of Agriculture', *Journal of Farmers' Club*, Part 3, 1945.

W. E. HEATH, 'Agricultural Price Policy in the U.K.', *Journal of Farm Economics* (A), vol. xxxiii, No. 3, Aug. 1951.

—— 'Price-fixing Policies in Agriculture', *J.P.A.E.S.*, vol. viii, No. 1, June 1948.

E. F. NASH, 'Changes in External Factors Affecting British Agriculture', *Lloyds Bank Review*, Apr. 1948.

K. A. H. MURRAY, 'The Outlook for British Agriculture', ibid., Jan. 1949.

SIR JAMES SCOTT WATSON, 'Progress in Agricultural Production', *National Provincial Bank Review*, Aug. 1951.

G. S. BROWNE, 'Some Economic Implications of the Agriculture Act, 1947', *J.P.A.E.S.*, vol. ix, No. 1, July 1950.

H. PALCA and I. G. R. DAVIES, 'Earnings and Conditions of Employment in Agriculture', *J.R.S.S.*, vol. cxiv, Part I, 1951.

D. K. BRITTON and K. E. HUNT, 'The Agricultural Statistics of the United Kingdom', ibid.

J. R. RAEBURN, 'General Principles of Marketing' in *The Farmer in Business* (Agricultural Co-operative Association, 1949).

Books, &c.

VISCOUNT ASTOR and B. SEEBOHM ROWNTREE, *Mixed Farming and Muddled Thinking* (Macdonald, 1946).

SIR R. GEORGE STAPLEDON (ed.), *Farming and Mechanized Agriculture*, 4th edition (Todd Reference Books, 1950).

J. P. MAXTON, *The Control of Husbandry: a Discussion of the Future of the War Agricultural Executive Committees* (Oxford Institute of Agrarian Affairs, 1946).

Report of the Committee appointed to review the Organization of the Ministry of Agriculture and Fisheries (Chairman: Mr. J. Ryan. H.M.S.O., 1951).

Report of the Committee appointed to review the Working of the Agricultural Marketing Acts (Chairman: Lord Lucas) Ministry of Agriculture and Fisheries, Economic Series, No. 48 (H.M.S.O., 1947).

C. V. DAWE, *An Enquiry into Agricultural Rents and the Expenses of Landowners in England and Wales, 1946 and 1947* (Country Landowners' Association, 1950).

L. F. EASTERBROOK, *British Agriculture*, British Council (Longmans, 4th edition, 1950).

W. B. MERCER, *British Farming* (H.M.S.O., 1951).

Reports of the Committee of Public Accounts (for information and discussion about price-fixing machinery).

Sessions 1948–9. First, Second and Third Reports (see especially p. 327 and Appendix 8).
Session 1950. Fourth Report.
Session 1950–1. Fourth Report.

White Papers (H.M.S.O.) e.g.:

The World Food Shortage (Cmd. 6785, Apr. 1946).
Second Review of the World Food Shortage (Cmd. 6879, July 1946).
Agriculture Bill: Explanatory Memorandum (Cmd. 6996, Dec. 1946).
Post-war Contribution of British Agriculture to the Saving of Foreign Exchange (Cmd. 7072, Mar. 1947).
European Co-operation: Memoranda submitted to O.E.E.C. (Cmd. 7572, Dec. 1948).
Agriculture in Scotland. Report of the Department of Agriculture for Scotland for the Ten Years 1939–1948. Cmd. 7717, 1949).
Ibid. *1949* (Cmd. 7950, 1950).
Ibid. *1950* (Cmd. 8183, 1951).
Annual Review and Fixing of Farm Prices, 1951 (Cmd. 8239, May 1951).

Periodicals

The *N.F.U. Information Service* (monthly since January 1946) has contained numerous short but authoritative articles on many aspects of agricultural development and policy. It serves as an admirable digest of current official and semi-official publications and statistics dealing with food and agriculture.

The Economist contains many articles on various aspects of agriculture.

Farm Economist, published three times a year by the Agricultural Economics Research Institute, University of Oxford, regularly includes 'Notes on Supplies and Prices', which may be consulted for the latter part of the period here reviewed.

Dates of Selected House of Commons Debates on Agriculture (see *Hansard*)

1945	15 November	1948	2 June
1946	15 and 25 February		20 July
	18 June	1949	19 January
	9 October		9 February
1947	27 January	1950	26 May
	9 June		30 June
	20 June		15 November

INTERNATIONAL ECONOMICS
(Chapters III, XXII, XXIII, XXIV, and XXV)

I. GENERAL THEORY AND TEXTBOOKS

The following deal with the general theory of international economics:

P. T. Ellworth, *The International Economy* (Macmillan, New York, 1951) (A).

G. HABERLER, *The Theory of International Trade* (Hodge, London, 1937).

D. MARSH, *World Trade and Investment* (Harcourt Brace & Co., 1951) (A).

American Economic Association, *Readings in the Theory of International Trade.* (Selected articles and useful bibliography.) (Blakiston, Philadelphia, 1949.) (A).

L. METZLER, 'The Theory of International Trade' in *Survey of Contemporary Economics* (Blakiston, 1948) (A).

J. ROBINSON, 'The Foreign Exchanges' in *Essays in the Theory of Employment* (2nd edition, Blackwell, 1950).

League of Nations, *International Currency Experience* (New York, 1947).

I. M. D. LITTLE, *Critique of Welfare Economics* (O.U.P., 1950).

Apart from the articles reprinted in the above volumes the following might be consulted:

R. TRIFFIN, 'National Central Banking and the International Economy' (with comments by H. D. Henderson, T. Balogh, R. F. Harrod), *R.E.S.*, 1946–7.

J. ROBINSON, 'The Theory of International Trade', ibid.

R. F. KAHN, 'Tariffs and the Terms of Trade', ibid., 1947–8.

T. BALOGH, 'The Concept of a Dollar Shortage', *M.S.*, May 1949.

F. V. MEYER and W. A. LEWIS, 'The Effects of an Overseas Slump on the British Economy', ibid., Sept. 1949.

K. MARTIN, 'The Dollar Gap', ibid., May 1950.

F. HILGERDT, 'The Case for Multilateral Trade', *A.E.R.*, Supplement, 1943.

G. HABERLER, 'Political Economy of Regional or Continental Blocs', in *Postwar Economic Problems*, ed. S. E. Harris (New York, McGraw-Hill, 1943).

II. U.K. PROBLEMS AND POLICY

1. *General*

P.E.P., *Britain and World Trade* (London, 1947).

W. A. LEWIS, *Economic Survey 1919–39* (Allen & Unwin, 1949).

A. E. KAHN, *Great Britain in the World Economy* (Columbia U.P., New York, 1947).

T. BALOGH, *Dollar Crisis* (Blackwell, 1949).

G. D. A. MACDOUGALL, 'Britain's Foreign Trade Problems', *E.J.*, Mar. 1947. (A comment by T. Balogh and a reply by MacDougall, 1948).

Statistical material presented during the Washington negotiations, Cmd. 6707, 1945.)

2. *Britain and the Sterling Area*

P.E.P., 'The Sterling Area', *Planning*, Nos. 331 (23 July 1951) and 332 (12 Aug. 1951). This is about the only study of the development of the Sterling Area which has been produced. Various aspects of it can be studied under the following heads:

British Exchange Control

Annual Report on Exchange Restrictions, published by the International Monetary Fund.

A. H. Smith, 'The Evolution of Exchange Control', *Economica*, Aug. 1949.

Paul Bareau, 'The New Bilateralism', *Banker*, Feb. 1948.

—— 'Britain's New Exchange Structure', ibid., Aug. 1949.

Annual Reports of the Bank of England.

The Sterling Balances

E. H. Stern, 'Britain's Aid to the Sterling Area', *Banker*, Sept. 1949.

The Banker: 'Who Holds Sterling Balances?', May 1950.
'Settling the Sterling Balances', Jan. 1951.

H. A. Shannon, 'The Sterling Balances of the Sterling Area', *E.J.*, Sept. 1950.

Sterling and Gold

E.C.E., 'The Gold and Dollar Deficit of the Sterling Area', Economic Bulletin for Europe, vol. i, No. 2, 2 Oct. 1949.

A. R. Conan, 'The Commonwealth Dollar Problem', *L.C.E.S.*, Feb. 1949.

South Africa

N. N. Franklin, 'The South African Balance of Payments and the Sterling Area', *E.J.*, June 1951.

The Banker, 'South Africa's Place in the Sterling Area', Oct. 1949.

General

The Economist, 'Sterling Area Government', Jan. 1950.

The Banker, 'Can the Sterling Area Hold Together?', Nov. 1949.

III. EUROPEAN PROBLEMS

1. *General*

E.C.E., *A Survey of the Economic Situation and Prospects of Europe* (1948) and annual Economic Surveys of Europe since.

Committee of European Economic Co-operation, *General Report*, vol. i, 1947.

O.E.E.C., *Interim Report on the European Recovery Programme*, vol. i, Jan. 1949.

—— *European Recovery Programme*, Second Report, Feb. 1950.

H. S. Ellis, *The Economics of Freedom: The Progress and Future of Aid to Europe, 1950*, Royal Institute of Int. Affairs, London.

R. G. Hawtrey, *Western European Union*, Royal Institute of Int. Affairs, London (1949).

2. *European Economic Co-operation*

First and Second Reports of O.E.E.C. These provide the factual background.

G. D. A. MacDougall, 'Western European Economic Co-operation', *L.C.E.S.*, Aug. 1950.

D. J. Morgan, 'The British Commonwealth and European Economic Co-operation', *E.J.*, Sept. 1949.

T. Balogh, 'Problems of Western Unification', *Bull. Inst. Stat.*, Oct. 1950; and 'Britain, O.E.E.C. and the Restoration of a World Economy', ibid., Feb. 1949.

3. *East-West Trade*

E.C.E., 'The Commodity Composition of East–West Trade in 1948', *Economic Bulletin for Europe*, vol. i, No. 3, 2nd quarter, 1949.

D. B. Halpern, 'European East–West Trade and the United Kingdom's Food Supply', *E.J.*, Mar. 1951.

4. *Intra-European Payments*

First Report of the European Payments Union (1952)

R. F. Kahn, 'A Possible Intra-European Payments Scheme', *Economica*, Nov. 1949; and 'The European Payments Union', ibid., Aug. 1950.

J. R. Sargent, 'E.P.U. and the Future of Sterling Policy', *Bull. Inst. Stat.*, Nov. 1950.

T. Balogh, 'Intra-European Clearing', ibid., Sept. 1948.

The Banker: 'How the Intra-European Payments Scheme works', Feb. 1949, and 'Sterling for Europe', ibid.
'Convertibility within Europe', Dec. 1949.
'Payments Union for Europe', Feb. 1950.
'Britain's Retreat from Bilateralism', June 1950.
'The Meaning of E.P.U.', Aug. 1950.
'How much Sterling in Europe?', Sept. 1950.
'A Year of E.P.U.', Aug. 1951.

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A. H. Hansen, *America's Role in the World Economy* (Allen & Unwin, 1945).

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S. Harris (ed.), *Foreign Economic Policy for the United States* (Harvard University Press, Cambridge, Mass., 1948).

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H. D. Henderson, 'The Anglo-American Financial Agreement', *Bull. Inst. Stat.*, Jan. 1946.

—— 'The Implications of the Marshall Speech', ibid., Aug. 1947.

—— 'A Criticism of the Havana Charter', *A.E.R.*, 1949.

R. F. MIKESELL, 'International Disequilibrium and the Post-war World', ibid., 1949.
—— 'United States International Financial Policy', *C.J.E.P.S.*, 1946.
T. BALOGH, 'The U.S. and the World Economy', *Bull. Inst. Stat.*, 1946.
—— 'International Equilibrium and U.S. Private Investment', ibid., 1951.

V. INTERNATIONAL ORGANIZATIONS

1. *I.T.O. and G.A.T.T.*

G. HABERLER, The Political Economy of Regional or Continental Blocs, *Postwar Economic Problems*, ed. S. E. Harris (New York, McGraw-Hill, 1943.)
F. HILGERDT, 'The Case for Multilateral Trade', *A.E.R.*, 1943 Supplement.
R. HINSHAW, 'Keynesian Commercial Policy', *The New Economics* (Alfred A. Knopf, New York, 1947).
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J. VINER, *International Relations between State-controlled National Economies* (1926).
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J. M. KEYNES, 'The Bank for Reconstruction and Development', opening remarks at the first meeting of the Second Commission on the Bank, 3 July 1944, reprinted in *The New Economics*, ed. S. E. Harris (Alfred A. Knopf, New York, 1947), pp. 396–400.
A. SMITHIES, 'The International Bank for Reconstruction and Development', *A.E.R.*, 1944.
W. FELLNER, 'The Commercial Policy Implications of the Fund and Bank', ibid., 1945 Supplement.

3. *The International Monetary Fund*

J. H. WILLIAMS, *Post-War Monetary Plans* (Blackwell, 1950).
G. HABERLER, 'Currency Depreciation and the International Monetary Fund', *R.E.S.*, 1944.
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